FINANCIAL FOUNDATIONS OF THE BRITISH RAJ

Men and Ideas in the Post-Mutiny Period of Reconstruction of Indian Public Finance
1858-1872

S. BHATTACHARYYA

INDIAN INSTITUTE OF ADVANCED STUDY • SIMLA
1971

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OF
THE BRITISH RAJ

James Wilson, India's first Finance Minister (1859-60)—or Finance Member, as he was then called—in hortatory frenzy.

(*The Indian Punch*
September, 1860 Vol 2, No. 9)

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INDIAN INSTITUTE OF ADVANCED STUDY, SIMLA
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First Edition
February, 1971
Rs. 30 : $ 11 sh. 70

Published by the Registrar, Indian Institute of Advanced Study, Simla-5
and Printed by the Pooran Press, 21, Balaram Ghose Street, Calcutta-4.

To
My Parents

"Yat prajñānam uta ceto dhṛtiśca
yajjyotyotir antar amṛtam prajāsu
yasman na ṛte kimcana karma
kriyate tan me manaḥ śivasamkalpam astu."

ACKNOWLEDGEMENTS

My debts are many. I recall them with pleasure. It is difficult fully to indicate my indebtedness to Professor A. Tripathi, University of Calcutta, who guided my first research efforts. I would also like to thank Dr. N. K. Sinha, formerly the Asutosh Professor of History, University of Calcutta, and Professor Niharranjan Ray, Director, Indian Institute of Advanced Study, for their advice and encouragement.

The intellectual debt one owes to one's teachers, colleagues and students can be acknowledged only in general terms. I should mention in particular Professor S. C. Sarkar whose generous willingness to listen I imposed upon even in my undergraduate days in Presidency College, Calcutta. Dr. Bipan Chandra of the Delhi University, Dr. Barun De of the Indian Institute of Management at Calcutta, and Dr. S. Gopal of Oxford University individually and, sometimes, collectively endured long sessions of discussion on the theme of this work. To them and to many others in Calcutta, Delhi and Oxford I owe a deep debt of gratitude. I am alone responsible for any errors or shortcomings.

I thank the Department of History, University of Calcutta, and the Indian Institute of Advanced Study for financial support in aid of research and publication; the Committee of South Asia Studies and the Department of History of the University of Chicago for providing a stimulating environment (and one term free of teaching duties) in 1968-69; and Dr. Raymond Carr and members of the Governing Body for electing me to the Harrison Fellowship (Oxford).

I am deeply indebted to Mr. H. R. Sanyal who kindly offered to check some statistical tables and printers' proofs during my absence from India; to the Editors of the journals mentioned in foot-notes below for permission to use material I originally published in the form of articles; to Mrs. Pauline Dower of Morpeth, Northumberland, for permission to consult the private papers of Sir Charles Trevelyan; and to Miss M. Patterson, Librarian of the South Asia section of the University of Chicago Library, who obtained for me microfilms of documents in the India Office Library. For granting me access to records and for their expert help. I thank the archivists and librarians of the National Archives of India (New Delhi), National Library (Calcutta), India Office Library (London), the Bodleian (Oxford) and the Indian Institute Library (Oxford).

Oxford
1 May 1970

SABYASACHI BHATTACHARYYA

CONTENTS

E R R A T A

Page	line	
lxix	3	*for* Banerji *read* Banerjea
1	12	*for* predimised *read* predicated
40	13	*for foot-note number* 35 *read* 33
47	21	*for* port-folio *read* portfolio
51	21	*for* was budget system *read* was the budget system.
57	18	*for* Glandstone *read* Gladstone
69	10	*for* broken *read* broke
72	32	*for* 1881 *read* 1871
114	15	*for* optinaism *read* optimism
120	20	*for* axtravagant *read* extravagant
120	27	*for* persued *read* pursued
121	19	*for* than *read* that
126	5	*insert* " *after* wealth
126	13	*for* under this salaries *read* under this were salaries
129	18	*for* pensonally *read* personally
208	11	*for* hence-forward *read* henceforward
244	29	*for* homogenous *read* homogeneous
249	3	*for* sacrific *read* sacrifice
253	20	*for* It *read* They
262	10	*for* the *read* that

LIST OF TABLES IN THE STATISTICAL APPENDIX

INTRODUCTION

ONE of the many minor functionaries in the vast financial machinery of the Indian empire was Charles Lamb. While working in the office of the East India Company's Accountant-General in London he once scribbled a 'review' of a book which he must have consulted almost daily, *Tables of Simple Interest* by a David Booth : "The interest of this book, unlike the generality which we are doomed to peruse, rises to the end."[1] Authors are seldom free of illusions about the value of their own work : yet, to assume that the present work would prove to be an exception to 'the generality' and sustain the reader's interest to the end, may not be realistic. Nor is there any particular virtue in making the reader plod through the arid tract which the author may reasonably be expected to map out for him. The Introduction aims therefore to provide an over-view of the area this work is intended to cover. This is also the purpose of Chapter I : in that chapter the dramatis personae are introduced to the reader and the problems specific to the period we are concerned with are outlined.

This study of Indian public finances begins just at the termination of the massive upheaval known as the Mutiny. 1858 is a convenient starting-point. The financial crisis precipitated by the Mutiny necessitated a policy re-orientation and this coincided with major institutional changes, including shifts in the locus of financial power, which marked the end of the East India Company's rule in India. (The institutional restructuring is discussed in Chapter II and the major policy

issues in Chapters III and IV). For several reasons the year 1872 may be considered to be the end of one phase and the beginning of another : the onset of what has been called the Great Depression, experienced by all the major economies of western Europe, specially Great Britain, in the period 1873-1896 ; certain changes in the world price of silver and the rupee-sterling exchange rate ; the completion of the decentralisation of Indian finance in 1871-72 ; the end of the administration of Mayo, one of the leading figures in our story, in 1872 ; and, above all, the exhaustion of the reconstructive impulse which characterised the 'sixties. Thus the period 1858-1872 has a certain measure of unity. We have chosen to make an intensive study of this brief but crucially significant periods. An attempt will be made in this and the following chapter to answer the question why the financial history of this period is considered significant in the evolution of the Raj.

* * *

This book is about the finances of an empire. It is a commonplace that public finance lies on the borderline between politics and economics. In this area of study the formal-legalism of 'pure' politico-legal or administrative history as well as exclusive preoccupation wih 'pure' economic history divorced from the political context are likely to be dysfunctional. The traditional approach to the imperial system of government has been legalistic. The members of the Civil Service and the jurists who made pioneering efforts in this direction expounded the formal and legal structure. That they deliberately limited their study in this fashion is understandable. But this tradition, followed by others who came in their trail, encourages us to ignore many questions that a study of the laws and regulations, an analysis of the statutory responsibilities and functions, the mere chronicle of the constituent parts of the

formal governmental machinery cannot answer. Decision-making on financial policy, for instance, involved a number of participants apart from those formally responsible for formulating policy. A few were made responsible for making decisions affecting the many and some among the many tried to influence those few. There were many groups trying to gain access to the men who had the power to make decisions. Some of these groups succeeded in exerting influence and thus indirectly participated in the process of decision-making. There were others who failed but continued to strive to persuade or pressure the decision-makers. This dynamic process of interaction and the multitude of considerations and pressures which determined the pattern of decisions and actions cannot be understood only in terms of the formal structure of authority. The inadequacy of the legalistic approach is equally clear when one considers the shifts in the decision-making function from one level of the administrative hierarchy to another without any explicit alteration of the laws and regulations. The effect of the growth of the technology of communication is a good instance. The beginning of the Indian telegraph system(1854), the overland cable connection to Europe (1868), the opening of the time-saving Suez route (1869), and finally the newly laid submarine cable (1870) increased the speed of communication with England and within India and thus strengthened the Home authorities' control over the Government of India, the latter's control over the provincial governments and so on down the line. Again, simply through a gradual tightening of financial control, the central or supreme government (as it was then called) found it possible to reduce the decision-making powers of the provincial (or subordinate) governments. As Sir Charles Trevelyan put it, the central government, pursuing a policy of financial centralisation, almost imperceptibly introduced "an organic change. . .in the constitution of

British India" : "as finance is the strongest of all elements of government it naturally absorbs and remoulds all the others."[2] Processes such as these—the influence of pressure groups. shifts in the locus of power as a result of the new technology of communication, or changes in the actual as distinguished from the formal-legal relationship between the constituent parts of the governmental machine—escape analysis if we follow the traditional legalistic approach. An attempt to map the configuration of the system as a whole should begin with the formal-legal framework (this framework in relation to financial powers has been studied in Chapter II) but need not end there. A study of the machine in operation indicates that it was within the gravitational field of many elements outside the formal structure. In analysing this situation we have used some terms which need to be defined.

The term 'bureaucracy' has been used in an entirely non-pejorative sense. An alternative term might have been 'the Civil Service'—a term which originated within the East India Company and passed into general currency in England after the publication of Sir Charles Trevelyan and Northcote's report on the organisation of the British Civil Service (1854). The word 'bureaucracy' was preferred because 'Civil Service' in India usually meant the Indian Civil Service—originally the covenanted servants of the Company who did not belong to the armed forces—while 'bureaucracy' denotes the entire body of government officials including those who were not covenanted members of the Indian Civil Service.

The term 'interest group' has been applied to groups of persons who have common objectives in relation to certain issues and a supposed or real community of interests, i.e. a common set of wants or a commonly shared desire for satisfaction on those specific issues. We are interested not so much in the internal organisation of these groups, as in the processes through which interest groups tried to gain access to

the people who had the formal authority to decide, in order to obtain decisions consonant with the group's aims. A group which so pressures the government participates, indirectly so to speak, in 'decision-making', i.e. the process which results in the selection of a course of action and techniques of implementation by the members of the bureaucracy. In other words, we are concerned with the influence exerted by the groups which had access to the government. Our study is confined to those groups which concerned themselves with the economic, particularly the financial policies of the Government of India. It is necessary in this context to make a distinction between 'power' and 'influence'. We can use the term 'power' to indicate formal-legal authority to make decisions of the government and the term 'influence' to refer to the ability (by rendering advice, by persuasion, by manipulation) to affect decisions made by accessible persons who possess formal powers.

Several groups may in unison command greater influence. These may be called 'interest constellations'. (Mayo, Argyll or Trevelyan talked of Railway interests, or Cotton interests in this sense).[3] For the present we are more interested in the more clearly identifiable organised interest groups, for generalisations on the larger aggregates such as the interest constellations are easy to make but difficult to test. It is useless to pretend that the influence of interest groups is something measurable. But a study of the types of groups, their methods and objectives, and the conflicts and liaisons between groups may have its uses.[4] The formally organised pressure groups fall into two broad types.[5] First, there were the tightly knit and highly organised groups, each more or less homogeneous in terms of economic interests and pursuing objectives specific to those interests. The second type of pressure group is more heterogeneous (but nevertheless united in a formal organisation or association) and usually offered

general policy prescriptions, because the heterogeneity of composition restrained the tendency towards special pleading in the interests of a single economic group. There is a certain symmetry in the structure and behaviour of the first type of groups. The groups belonging to the second type are asymmetric and are rather like uncomfortable coalitions formed through mutual accommodation : the long term objective interests of the elements constituting such a group were not necessarily the same. In terms of homogeneity of interests, organisation and depth of consolidation, and specificity of objectives these two types are analytically distinguishable. A third sort of phenomenon was the amorphous group—lacking any formal organisation, less articulate about objectives, less adept in the art of getting access to the governmental process, and relatively ephemeral. Such were the responses of the common people to the policies of the government—the almost spontaneous meeting in the *bazaar*, the deputation of the elders to the *sarkar*, the memorials and petitions about grievances and so on. Though a grouping of leading men was inevitable when memorials had to be submitted or a deputation had to be mobilised, the amorphous group was a transient thing and did not function as a pressure group. The most legitimate channel for the common people to reach the Olympian heights of the Government House or the Secretariat was the petition. The subjects' right to memorialise any agency of the government was recognised and widely used. The petition from "the inhabitants of Neriad Zillah, Kaira" (June 1860), from "the inhabitants of Calcutta" (April 1867), or the massive petition from "3646 native merchants of the town and island of Bombay" (October 1859) are instances of such popular endeavours to reach the ears of the *sarkar* unaided by any formally organised association.[6] Such instances of memorials on fiscal policy to the Indian Government are, however, rare : the larger issues of financial policy relating to the whole of

India did not receive as much attention as purely local issues which concerned the agents of the government at the district or municipal level (who were duly memorialised) and not the Government of India. The only financial measure of the Government of India which provoked many "people's petitions" was the income tax, an unfamiliar innovation affecting a fairly large section of the population, especially the *banias*.

Examples of the first type of pressure group are the Chambers of Commerce (in Calcutta, Bombay, Madras and Karachi), the British Indian Association (Calcutta), the Calcutta Trades Association, the Cotton Supply Association (Manchester), the Indigo Planters' Association (Calcutta), etc. All the Chambers of Commerce were dominated by Europeans. The most influential among them, the Bengal Chamber of Commerce (founded 1834), was almost exclusively British—though less exclusive in that sense in the early period than in the late nineteenth century. In 1858 less than 5% of the members of this Chamber were Indians.[7] In the Bombay Chamber of Commerce Indian businessmen, especially the Parsi business houses, were more well-represented. The other two Chambers, of Madras and Karachi, were much smaller bodies : almost all the office-holders, as in Calcutta, were Europeans. The Chambers of Commerce, as we shall see, were interested chiefly in the government's policy concerning tariff, customs evaluation, inland duties on goods moving inside the country, business taxes such as the *mohturpha* and the license tax on trades, income tax, and land regulations affecting plantation enterprise. Smaller businessmen had formed (1830) the Calcutta Trades Association : their aim, more limited than that of the Bengal Chamber, was mainly to obtain tax relief for themselves. The Association demanded higher taxes on income from land or "realised property" and "idle capital" so that business taxes might be reduced.[8] The Indigo Planters'

Association (formed in 1854) and the Landholders' and Commercial Association of Bengal, together with the coffee planters of Coorg and tea planters of Assam (who apparently had not yet organised independent associations, though they were organised enough to send joint memorials), were specially active in 1859-61. They demanded a change in the land regulations so as to allow redemption of land revenue and free-hold tenure.[9] Their activities reinforced the pressure exerted on the Home authorities by the Cotton Supply Association of Manchester. This Association was urging the Indian Government from the 1850's to encourage the growth of raw cotton supply in India—a need that became critically urgent for the Manchester cotton mill-owners during the American Civil War when cotton supply was drastically depleted. Change in the land regulations to allow capitalists to develop cotton plantations in India was only one of the measures urged on the Indian Government by the Cotton Supply Association : they also urged the Government of India to build roads from the cotton producing districts to the ports, to exempt cotton land from land taxes, to invest in development of harbour facilities for export of cotton, to pass laws for the prevention of adulteration of raw cotton, and in general to facilitate the application of "the surplus capital and free enterprise of England" in India.[10] This Association, backed by the Manchester Chamber of Commerce and the so-called 'Cotton M.P.s', used the whole range of pressure group tactics—memorials to the Court of Directors and the Secretary of State (1857, July 1859, April 1860), deputations to India Office (February 1859, October 1861), press propaganda (in the Association's periodical, the *Cotton Supply Reporter*), lobbying in Parliament, and representations to the Governor-General (April 1860, May 1861).[11] So far as the Government of India were concerned the Chambers of Commerce of Glasgow, Leeds, Dundee, etc. were far less

active: however, they shared with Manchester a concern about Indian customs duties.

The British Indian Association was as much an interest group as these commercial bodies. This view is likely to be disagreeable to those who politely avert their gaze from its role as the guardian and defender of *zamindary* interests: the 'nationalist' umbrella is extended over the Association and attitudes based on self-interest, if at all admitted to exist, are glossed over as rare lapses from some superior norm. The British Indian Association was a descendent of the Zamindars' Association of Bengal (founded in 1837), later known as Landholders' Society, which, generously "rejecting all [principles of] exclusiveness", made the "possession of interest in the soil of the country" the only qualification for membership.[12] The amalgamation of this body with the British India Society (founded in 1843) led to the formation of the British Indian Association (1851). Representing *zamindar* interests, the Association was, as a visiting English journalist pithily put it, "a system of organised selfishness".[13] The Government gave due weight to the Association as a *zamindar* group and many of its members were nominated to the Legislative Council. One of these nominees was Prosonno Coomar Tagore, a leading figure in the Association in the 1860's; he was also invited in 1860 to join a Committee, headed by Richard Temple, on the form of income tax returns.[14] Not all the members of the Association were landlords: there were some merchants and professional people. But the predominant element was the rich *zamindar* class, and those (like Sisir Kumar Ghose) who had hoped that the *zamindars* would be gradually reduced to a minority with the infusion of educated, middle class, professional people, were eventually disillusioned. This disillusionment led to the formation of the rival Indian Association (1876) to represent "the middle class community ...on a more democratic basis".[15] The views of the British

Indian Association on issues of financial policy sufficienly indicate their class bias. In 1860 members of the Association opposed direct taxes on the *zamindars*' income alleging infringement of the Permanent Settlement of 1793.[16] In 1861 they urged the Government to increase salt duty—a tax which fell mainly on the poor and appeared "least objectionable" to members of the Association : the Association hoped that higher salt revenue would enable the Government to relieve the upper income groups from the "oppression" of income tax.[17] In 1871 they stood in the way of local improvements with money raised by means of local cess (such as Road Cess and Education Cess) and they again invoked the Permanent Settlement.[18] When in 1868 the British Indian Association desired the formation of a consultative council of "competent native and European gentlemen" to advise the Government on financial policy, the Governor-General in Council, abandoning their customary indirectness, observed that such a body would only "represent a few classes whose obvious interest it would be to avoid taxing themselves".[19]

In contrast with these interest groups, the groups of the second type were more broad-based and heterogeneous and pursued objectives less narrowly conceived. The East India Association, the India Reform Society, the Bombay Association, etc., may perhaps be placed in this category. Under Naoroji's influence the East India Association came as close to being a lobby in London's political world as was possible for Indians to organise in the late 'sixties. Naoroji conceived its function to be that of an agency to watch and protect Indian interest in London, to disseminate information there, and to collect funds to do these things effectively. It was joined by Indian students in England as well as Englishmen (constituting about one-fifth of the total membership in 1868) who had served in India. The composition of its membership—particularly the presence of young Indians who had

been, at least temporarily, prised loose from their local moorings in Calcutta or Bombay—and its location, enabled the Association for some time to play the role of the defender "of the public interests and welfare of the inhabitants of India generally".[20] In the meetings of the East India Association in London liberals (to use the term loosely) like Evans Bell affirmed the value of 'Trust as the basis of Imperial Policy', Sir Charles Trevelyan speculated on the future possibility of the imperial "masters and teachers" leaving India "without any injury to the country", and even Sir Bartle Frere, a redoubtable authoritarian, expounded his views on Indian "public opinion".[21] The Association's proceedings, published in the *Journal of the East India Association*, and memorials to the Secretary of State, Parliamentary Select Committees, etc., indicate that leading members of the Association were well-informed on financial questions. Some of their views were quite advanced (e.g. their advocacy of "a proper system of loans and sinking funds" in place of the existing system of meeting public works expenditure with current revenue) and Naoroji's expositions (especially the paper "Wants and means of India" read before the Association in 1870) raised public discussion on the subject to a new level.[22] Yet the East India Association remained in a kind of expatriate's limbo and its only Indian branch, the East India Association of Bombay (founded in 1869) played a peculiarly ineffective role. Only on the occasion of the appointment of a Parliamentary Select Committee on Indian finance the Bombay branch made some effort to put up a case for enquiry into Home Charges in their petition (1871) to the Secretary of State.[23] This body is not to be confused with the Bombay Association which also sent a similar petition about the same time.[24] The Bombay Association (founded in 1852) was joined by members of all the three communities prominent in Bombay, the Parsis, the Gujratis and the Maharashtrians. It

was destined to attract many distinguished professional people, like R. G. Bhandarkar and Sorabjee Sapurjee Bengalee, many of them alumni of the Elphinstone College; it was also supported by businessmen such as Nathubhoy Mangaldas and Jamsetjee Jeejeebhoy. The Bombay Association was interested in issues primarily local in nature : they wanted better and less expensive public works, in 1871 they opposed house taxes and octroi duty (local taxes), and they also echoed voices raised in Calcutta and elsewhere demanding reform of the Legislative Councils and measures facilitating admission of Indians to the Civil Service.[25] On the bigger Indian financial questions the Association was strangely quiet : possibly the business class found the Chamber of Commerce (where Indian representation was stronger than in the Bengal Chamber) a more effective agency for pursuing such matters.

The ideas constituting the kernel of Indian economic nationalism were slowly taking shape in the 'sixties (this has been discussed in Chapter V) and many of the local associations such as the Bombay Association, the Poona Sarvajanik Sabha and the Madras Native Association, were only beginning to learn the techniques of persuasion and pressure. Naoroji was in a unique position because of his personal acquaintance with such techniques practised in England and, of course, the locational advantage of his base in London. "English interests", he told the Parliamentary Select Committee on Indian finance in 1871, "exercise such pressure upon the Indian Government, that unless Parliament does its duty and insists that, in accordance with its pledges, justice shall be done to the children of the soil, there is but little hope on that score".[26] In order to fight such pressure Naoroji entered the game to apply counter-pressure, though he had little access to the decision-makers or, as he put it, "the head which designs" and "the hands which execute". Possibly he was wrong in over-estimating the effectiveness of propaganda and

in expecting readiness on the part of Parliament to step in, to pull up the Indian Government like a nanny checking a bully in the nursery, in defence of what was supposed to be the British notion of "fair play" But Naoroji used whatever means that were available to him to put up a case, to mobilise opinion and sympathy, and the "English interests" had shown his the way. Naoroji was aided by the climate of opinion created in England by the India Reform Society founded in 1853 by John Dickinson, the author of *India, its Government under Bureaucracy* and publisher of the *Reform Tract Series*.[27] Some humanitarian causes also attracted enthusiasts e.g. the agitation in the 1860's against Indian Government's participation in opium manufacture and trade, which eventually led to the formation of the Society for the Suppression of Opium Trade in 1874.[28]

The techniques used by pressure groups are more limited in range in an authoritarian system than in a democratic set up. The commonly used channel to obtain access to the organs of the government was the petition or memorial. A convention seems to be in the process of developing: the memorials in India were in the first instance sent to the civil servant lower down the line (e.g. the Secretary of the provincial Board of Revenue or the Secretary of the Indian Finance Department)—perhaps to find out how the land lay—and then to the top members of the Government (i.e. the Governor-General and his Council), and finally to the Secretary of State for India. Pressure groups in England, on the other hand, directly approached the Secretary of State who transmitted the message to the Governor-General in Council: the option of seeking satisfaction by dealing with the Government in India directly, was of course open to the interested groups in England. Thus the Cotton Supply Association, not content with their efforts in London, corresponded directly with the Governor-General in Council.[29] Some of the Indian Associa-

tions, notably the East India Association in London communicated directly with the Secretary of State. The British Indian Association and the Bombay East India Association similarly went to that final court of appeal in 1870 when the appointment of a Parliamentary Select Committee seemed imminent.[30] Proximity to the apex of the pyramid, India Office and Parliament, as Naoroji had realised, gave the pressure groups in England an advantage over those in India.

Memorialising was more effective when it was a co-ordinated endeavour of several groups or associations. Unlike the British pressure groups, the Indian associations were primarily local groupings incapable of concerted action. Let us take a minor campaign of British pressure groups—the agitation to reduce the duty on saltpetre. The campaign was opened in December 1860 by 42 London firms who were in the business of saltpetre import from India (mainly for re-export to the continent) : they memorialised the Secretary of State that the Indian export duty was bad for their business. Within two months the Bengal Chamber of Commerce joined battle. The Chamber of Commerce of Bombay lodged a protest against the export duty two months after the Bengal Chamber. The Madras Chamber of Commerce reacted, somewhat slowly, in May 1861 but made up for their delay by sending no less than three memorials to the Government. The Karachi Chamber of Commerce, being relatively in the backwaters, failed to join the agitation till April 1862. Individual business firms (e.g. the saltpetre manufacturers in Sind and British firms in Calcutta in the export business) banded together to send additional memorials from time to time to keep the issue alive. The duty was reduced in 1865 and again in 1866—a result of persistent and concerted action.[31] Such co-ordinated effort was not yet possible for the Indian organisations.

Another method of approaching the policy-makers was to send a deputation to the top members of the Government in

India or to the Secretary of State. For instance, when the Bengal Chamber of Commerce felt dissatisfied with the customs valuation system; they could persuade the Finance Member to receive a deputation (October, 1860) to bring to his attention complaints previously made in a series of memorials from the Chambers in Calcutta, Madras, Bombay and Manchester.[32] The Cotton Supply Association sent deputations to the Secretary of State on several occasions between 1859 and 1862. The Finance Members, Wilson and Laing, received deputations from Manchester shortly before leaving for India.[33] Few instances of similar deputations from Indian merchants are known. (In 1860 Marwari traders of Calcutta went in a deputation to the Secretariat of the Bengal Government to submit that if enquiry by income tax assessors disclosed "how much of the money employed by them in trade was their own, and how much belonged to others" the result would be commercial discredit for many Marwari *cooties*).[34] Indians, apparently, could not use this method of ventilating grievances as often as the British nationals did. Possibly the face-to-face encounters did not work, which is not surprising considering the growing social distance between the British Civil Servants and the subject race.

The third method, open to those who found the humble memorials and petitions inadequate as a means of ventilating grievance and obtaining redress, was propaganda in the Press. Some of the pressure groups had their own publicity organs. These could be either very specific and limited in scope like the periodical *Cotton Supply Reporter* issued by the Cotton Supply Association, or a full-fledged newspaper such as the *Hindoo Patriot* run by a Board of Trustees dominated by members of the British Indian Association.[35] Even in the absence of such direct control, newspapers were available for use as propaganda vehicles. Newspapers like the *Englishman* or the *Pioneer* were often so used by the European

commercial community in India. Similarly the *Rast Goftar*, the leading Parsi journal of Bombay was used for propaganda purposes by Naoroji and his associates in the East India Association. A point of incidental interest is the curious ambivalence of the Indian-owned English newspapers, the counterpoint between agitational and deferentially conciliatory attitudes in their writings. Possibly it was because those journals addressed themselves to not one audience, but two : the 'enlightened' members of the subject race and the 'sympathetic' members of the ruling race. No one can fail to be struck with this feature of that species of journalism.

The method of lobbying in Parliament was an art Indians were beginning to get acquainted with. Not all the lobbies were motivated by direct self-interest. British M.P.s lent their support to many civic groups with humanitarian causes. One of such lobbies was the anti-opium group : year after year in a thinly attended house certain M.P.s would rise and, by way of commenting on the Secretary of State's financial statement, would draw attention to the 'morally reprehensible' nature of the opium traffic in which the Indian Government was involved. Col. Sykes, R.N. Fowler, Sir W. Lawson, Stephen Cave and M. Fowler were some M.P.s who belonged to the anti-opium lobby.[36] The other type of lobbying in Parliament was on behalf of commercial interest groups. The lobby of an interest group in England (e.g. the "cotton M.P.s" like J. B. Smith and T. Bazley aided by Watson, Crawford and others) was immensely more powerful than what Indians could mobilise. Though the bonds of sympathy are generally weaker than ties of interest, there were however Indian sympathisers in Parliament who could make things awkward for the Secretary of State and the Indian Government. Mayo in his letters to Disraeli and Stafford Northcote speaks fiercely of these "Indian grievance mongers", these "Radicals [who] have an inherent proclivity towards supporting motions hostile

to the Government of India", and those "dilettanti Indian Statesmen".[37] This out-pouring of long pent up wrath was occasioned by the appoinment of a Select Committee of Parliament on Indian Finance. Argyll wrote from the India Office that it was "a bore" but reconciled himself to it as a necessary evil.[38] The Finance Member, Richard Temple inveighed (of course in private letters, like Mayo and Argyll) against "Mr. F's questions" which were "not questions at all, but are backhanded cuts at the Government of India."[39] The critic whom Temple thus singled out was, probably, Henry Fawcett, professor of Political Economy at Cambridge (1863-84) and M.P. for Brighton (elected 1865 and 1868). He was well-known, almost notorious, for his pro-Indian sympathies and was one of the mentors of Henry Hyndman, his pupil at Trinity, who (influenced by the writings of James Geddes and Naoroji) became another champion of the Indian cause.[40] While the intercession of Parliament or the excessive zeal of a prying M.P. was not likely to be viewed enthusiastically in the Government House in Calcutta or in India Office, the British Indian Association, the Bombay Association and the East India Association eagerly exploited such opportunities. That Naoroji was allowed to present to the Select Committee his critique of Indian finance was regarded almost as a legitimisation of his position as a spokesman of protest. It is evident from the memorials sent by these bodies when the Parliamentary Select Committee on Indian Finance was appointed in 1871 that they looked upon the Parliamentary enquiry as a means of ventilating grievances. The "control of the great Parliament of the Empire", Naoroji said in his statement to the Select Committee, "will prevent many of those evils which freedom from a sense of responsibiliy induces" in the Indian Government.[41] The enquiry was a unique opportunity to inform the British public and Parliament. It is difficult to say whether men like Naoroji in these associations

really believed that only an information gap, between India and a Parliament eager to undo all the wrongs done to Indians, needed to be bridged and a miracle would be wrought. It is true that such naive statements—together with vague generalities about English national character, sense of fair play, etc.—were much in vogue but it was perhaps no more than a vogue, a style of playing the game, a form, a language that was thought suitable for obtaining desired goals.

Finally, another channel for communicating advice and opinion between a pressure group and the Indian Government was through a group's representation in the Legislative Council, government-appointed Committees, etc. The nomination of members of Chambers of Commerce and the British Indian Association to the Legislative Council and the inclusion of S. N. Bullen (the President of the Bengal Chamber of Commerce) in the Committee for Revision of Customs Valuation (1860),[42] of Prosonno Coomar Tagore (British Indian Association) in the Committee for Revision of Income-tax Returns (1860),[43] of J. A. Crawford (Bengal Chamber of Commerce)[44] in the Tariff Committee of 1866—these and other instances of careful selection of non-officials as spokesmen of important groups indicate the government's anxiety to maintain contacts with those groups. The powers of the Legislative Council were so circumscribed and the duties and functions of these Committees were of such minor importance that the formal association of non-official in these bodies served only to keep contacts open, and to make certain views known. We have noticed elsewhere the dissatisfaction of the professional urban middle classes with the preponderence of members of the landed aristocracy among the Indian non-official nominees in the Legislative Council.[45] Since the Legislative Council debates were reported in the newspapers, though rather cursorily, and since the Proceedings were readily available, historians have paid a good deal of attention to the Legislative

Council affairs : but there is little evidence that the Council debates had any influence whatsoever on policy-making.

Memorials, deputations, propaganda in the Press, lobbying in Parliament, and representation in the Legislative Council or government committees—these were the main channels between pressure groups and the government. But one cannot exclude the possibility of informal contacts influencing decision-making. The European merchants, for instance, had some influence over the people in the lower levels of administration. Ashley Eden while conducting an enquiry into the system of customs valuation in Calcutta in 1860, suspected collusion between customs officials and members of the Bengal Chamber of Commerce.[46] The valuation was fixed "rather by compromise" between rates proposed by the latter and those suggested by the Collector of Customs. Eden "found those articles of trade in which the more influential merchants are principally concerned generally much undervalued".[47] There is no evidence that this kind of malpractice was widespread. This is probably an atypical case. At any rate, the top members of the government could not be expected to enter into any collusive relationship of this nature : but were they immune from the social pressure of their compatriots in India ? The answer to this question is important.

It seems that in the last half of the nineteenth century increasing social distance between the Europeans and the natives, on the one hand made the Europeans less accessible to the natives, and on the other, by narrowing down the Europeans' boundary of association, made them more amenable to pressure from members of their own small community. Those who float with the current do not feel the pressure so much : those who went against the stream became aware of the strength of such pressure. This was the experience of Sir Charles Trevelyan and Mayo when they made decisions against the general feeling of the Anglo-Indian community. Trevelyan

saw that "service feelings" and "esprit de corps" came in the way of efforts to economise.[48] He encountered cases of "jobbing" which "arises chiefly from a Brotherly feeling".[49] He incurred the wrath of the Europeans in business when he proposed in his budget of 1865 export duty on, among other commodities, tea, coffee and jute. The Anglo-Indian Press believed that he was "hostile to the Planting interests",[50] that he lacked, as the *Friend of India* put it, "active sympathy with commerce and the commercial community".[51] The Secretary of State refused to sanction the new export duties, the Indian Government was forced to repeal relevant sections of the Act they had already passed, and before the year was out W. N. Massey came from England to replace Trevelyan.[52] Mayo's case is more interesting because he had to contend with pressures within the bureaucracy and the army. When he tried to retrench military expenditure he found himself at war with his Commander-in-Chief : there was a "warfare of notes" during which the chief of the army used Fabian tactics (he kept the relevant papers for three months to hold up a decision), outflanked the enemy (by corresponding directly with the Secretary of State and members of his Council), and to cap it all, the Military Member made a frontal retaliatory attack (a proposal to reduce not military but civil expenditure).[53] Mayo "incurred all the odium"[54] of retrenching commissariat and barrack construction expenses, fought doggedly with the "military sinecurists",[55] as well as his associates who were previously "calling out loudly for economy".[56] After being defeated—the Secretary of State disallowed army retrenchment—Mayo wrote bitterly : "selfinterest is difficult to beat. The public service is a secondary consideration".[57] The same sort of solidarity was displayed by the covenanted civil service in 1870 when they "agitated" for larger pensions. Under the influence of 'esprit de corps' the Governor-General and his Council recommended their case to the Secretary of State.[58]

In the event the Home authorities proved to be less amenable to such pressure : in any case, the pensions could not be raised due to financial stringency. Argyll pointedly remarked in an official despatch that in the Governor-General's Council everyone except the Law Member and the Governor-General were members of the Civil Service and were "all personally interested in the question".[59] The Indian Civil Service, in the opinion of Argyll, was paid more than any other service, "in the Empire, probably in the world".[60] Fearing that the tone of the despatch rejecting the application for higher retirement benefits might offend civil servants, Mayo requested Argyll not to make it public.[61] The question was quietly dropped. These episodes suggest that even within the administration and the army in certain situations there emerged a pattern of behaviour very much like that of the interest groups outside, and that "brotherly feeling", "esprit de corps", sympathy between compatriots, etc., were not unimportant factors. However, we need to know a great deal more about the background of the civil servants, their links with the rest of the European community in India, their monetary investments, and their attitude to government decisions affecting their interests directly or indirectly before we can generalise further about social pressure in relation to policy choice. But it is more than plausible that social pressure was a means of influencing decisions and that it was reinforced by imperatives derived from what may be called the 'common pool of conventional wisdom', shared norms of conduct and mutual expectations.

Social pressure was meant to ensure 'sympathy'. Under an authoritarian system most of the pressure groups were not in a position to apply sanctions if their demands were not satisfied. Possibly some powerful bodies like the Manchester Chamber of Commerce or the Cotton Supply Association could make things awkward for the Secretary of State for India ; perhaps the Chambers of Commerce in India could

similarly make a fuss. But generally all that the pressure groups could do was to persuade, to make requests, to put up a case, to advise. To obtain "sympathy" was therefore important. Foreign rule placed the indigenous groups under special disabilities. Not the least of these was the social distance between the two races. This gave the British interest groups an immense advantage over the Indian ones.

What has been said above about types and methods of pressure groups evidently abstracts some of their characteristics and isolates some of their activities. It is not useful here to make an inventory of all the organisations and associations or to describe their activities exhaustively : much ground has been covered in that direction by the historians of nationalist politics. We are more interested in the interaction between the government and the pressure groups, and the repercussions on decision-making in the area of public finance. In terms of degree of homogeneity of interest, organisation and depth of consolidation as a group, and specificity of objectives we have distinguished between type I—chamber of commerce, landlords' association planters' association, traders' group, etc.—and type II—the proto-political associations, altruistic opinion-groups, reformist enthusiasts, etc. There is also the amorphous and transient group—the response of members of the relatively inarticulate and unorganised masses who occasionally assembled apparently spontaneously, signed petitions in large numbers, or sent deputations—but this does not constitute a pressure group. In terms of successful functioning in the system, or success in playing this game, the first and second types and the amorphous group can be ranked in that order. On the other hand in terms of potential threat to the system their ranking is just the reverse. The groups of the first type were already adept in the art and those in the second category were learning how to play the game, sedulously memorialising, lobbying and general-

ly 'making a fuss'. The common people, 'the silent many' as Mayo called them,[62] were inept in this game. Their grievances and demands were expressed in massive upsurges like the Indigo Rebellion of Bengal or the Deccan Riots. (The *ryots* who joined the *neel bidroha* in Bengal received the support of a handful of *zamindars* and, from outside rural society, the support of Calcutta-educated *mukhtars*, journalists and missionaries.[63] Similarly the Deccan *ryots*, in their agitation against increased land assessments, received the sympathy of the Poona Sarvajanik Sabha who instituted enquiries into the *ryot's* grievances.[64] But the upsurge in Bengal in 1859 and in the Deccan in 1875 were spontaneous outbursts of long pent up grievances and leadership did not belong to the urban, educated pressure-group tacticians. It has been pointed out that, "The village headmen or *mandals* whose names appear as leaders in the records of the indigo disturbances are too numerous to recite....'Leaders have sprung up in one village who have, in an incredibly short space of time, gained an enormous influence in a number of adjacent villages, and have lost it almost as quickly' "[65] The Deccan ryots' petitions—typical was the petition which originated in a village meeting at Indapur in July 1873 and snowballed into a massive petition carrying 2694 signatures—gave a fore-warning of the Deccan riots: "the riots of 1875 were spontaneous" and quite unlike the organised campaign the Poona Sarvajanik Sabha had in mind.[66] The Bengal and Deccan agitations achieved some positive results in the shape of legislative intervention. The government took notice of the *ryots*' grivances. What the *ryots* in Bengal and the Deccan did was, of course against the rules of the elegant game played by the "elite" pressure groups).

The British interest groups, in addition to their ability to apply social pressure to influence people in decision-making positions, enjoyed other advantages over the Indians who tried to play the game. Their lines of communication direct to the

Home authorities proved to be of crucial importance. The Secretary of State's intervention in 1875-79 to abolish import duties on Manchester goods (and, later, to impose the countervailing excise duty on Indian cotton manufactures) captured public attention as a dramatic exhibition of bias. Less dramatic but no less efficacious was the India Office's intervention in the 1860's on the question of reduction of export duties on cotton and jute manufactures. The ability of the British interest groups to take concerted action was far greater than that of the rival Indian groups. The latter also suffered from the lack of experience and the specific manipulative skills needed in the new type of lobbying. These advantages in part (and only in part, because there were deeper-seated reasons) account for the success of the British interest groups—e.g. the success of the Cotton Supply Association and planters' associations in having land regulations changed in 1862; the success of the Dundee Chamber of Commerce who wanted in 1869 the abolition of import duties on jute manufactures and obtained it in 1870; the success of the private investors in railways in the 1850's in securing state guaranteed interest regardless of commercial results of enterprise; the success of Manchester in having the import duty on their manufactures reduced in 1862 and 1863 and, finally, abolished in 1879.[67] Not all the British interest groups were, of course, equally influential. The owners of jute mills in Bengal—mostly Scotsmen—lost their battle to the Dundee Chamber of Commerce in 1870. (It is to be noted that the competition between them was mainly in the Australian, New Zealand, and South African markets). The saltpetre manufacturerers and exporters had to fight for five years to obtain a reduction of the export duty on saltpetre. (The trade, in any case, was dying a natural death for the technique of artificial manufacture of saltpetre in Europe destroyed the re-export trade.) But by

and large the response of the government was positive and prompt. The success of Manchester in influencing the government has attracted historians' attention but the British interest groups in India were no less important. The Bengal Chamber of Commerce had an astonishing record of success in influencing certain decisions. In April 1859 the Chamber protested against high tariff duties (one of the consequences of extraordinary government expenditure during the Mutiny) : in February 1860 many of the export duties (jute, hemp, flax, raw hides, wool, etc.) were abolished by Wilson.[68] In August 1860 the Chamber—supported by the Chambers of Commerce of Manchester, Bombay and Madras—demanded revision of customs valuation : in October 1860 the government appointed a committee, including a representative of the Bengal Chamber, to revise the valuation.[69] In February 1861 the Bengal Chamber supported the saltpetre exporters' demand that the export duty be reduced : the reduction (from Rs 2 per maund to R. 1 per maund) was made in March 1865. In April 1865 the Chamber condemned the new export duties on tea, coffee, jute, hides, wool, etc. proposed by Trevelyan : in May 1865 the Secretary of State refused to sanction these duties and in June the Government of India repealed the duties.[71] In February 1866 the Chamber asked for a further reduction in saltpetre duty : a further reduction (from R.1 to 3% ad valorem) was made the same year.[72] In November 1867 the Chamber desired a revision of customs valuations, especially of cotton goods ; in February 1868 a committee was appointed to revise the valuation (the valuation of cotton piece goods was reduced by 15%).[73] In two cases the Chamber was not so successful. In March 1867 the Chamber supported the grain merchants' agitation to reduce the export duty :[74] the duty on wheat was not abolished till January 1873. And in opposing direct taxes the Chamber was arguing a lost case,

for the government was unwilling to give up altogether a potentially large source of revenue.[75]

On the whole, while none of the pressure groups, British or Indian, who participated the game had complete control over the outcome, the British interest groups' efforts met with success oftener and sooner. That is not to say, let us repeat, that the latter always got what they wanted : for there were important constraints on the government. Apart from the demands made by the British interest groups, there were the demands of the system itself. The imperial system had to be maintained—its legitimacy and security, its financial viability, its ability to sustain itself could not be jeopardised. A set of constraints, therefore, stemmed from the needs of the system. First, desire for tax concessions, repeal of customs duties, abolition of income tax, etc., however loudly and insistently voiced by British interests, had to be considered by the government in the light of the overall financial situation. If the government could afford it, concessions were made. Otherwise, as in the case of income tax, the bete noire of Chambers of Commerce and salaried income earners, the government had no option. In this case, or in the case of import duty on cotton goods, the substance of the government's negative responses to the Chambers of Commerce was that they would abolish these taxes if they could, but they could not. Promises were made that the earliest opportunity would be availed of. This did not quite satisfy the pressure groups. The merchant or, for that matter, any tax-payer was interested in relief within his life-span while the government, anxious not to endanger its financial viability, was satisfied with slow progress (e.g. gradual progress towards the almost total free trade achieved in 1882). What we may call the relevant time-span was, after all, longer for the government.

Secondly, the government was not altogether careless of its public image. Bartle Frere exhorted the government to

"feel the pulse of the people", Mayo noticed that Indians were becoming "quite alive" to financial questions, and even in traditionally tranquil Madras the Board of Revenue was beginning to feel that the decisions of the government were "now keenly scrutinised and intelligently discussed by increasing numbers of our subjects . . . . "[76] Wilson's elaborate defence of the abolition of duties (1860) on raw materials like jute and cotton, exported by British firms to "the great manufacturing countries of Europe" or Laing's aggressive justification of the reduction of import duties on cotton manufactures (1861 and 1862) under the shadow of a financial crisis, seem to suggest that the Finance Members were not addressing only their immediate audience—the official members of the Legislative Council and the docile nominees known as 'non-official' members. These were efforts to justify the concessions made to British interest groups to that abstract entity, 'the public'. For it was not unimportant to preserve what Trevelyan called the government's "reputation for good faith".[77] There is, in the private correspondence of Viceroys and Finance Members, indirect evidence of this concern for the government's public image. Decisions which were likely to be unpopular or information likely to create an adverse reaction were discussed in private communications. Most of Wood's exhortations to reduce import duties, especially his plan for a countervailing duty on Indian cotton manufactures (in the form of an excise duty on Indian made cotton goods or a special tax on cotton-spinning factories in India), were only for the eyes of Elgin and Bartle Frere.[78] The "native weaver papers" (i.e. information collected by Trevelyan on the decline of native cotton weaving industry, vide pp. 189-90 infra) were printed for limited circulation with the same precautions for secrecy that were observed to print the budget; Trevelyan hastened to assure Wood that less than a dozen copies were printed for the Governor-General's Council

and the India Office, and that "nobody else either in England or India" could have seen those papers.[79] Again, the decision to recede from the widely known official decision of 1862 to introduce a Permanent Settlement, was made by Cranborne, Argyll, Lawrence and Mayo through confidential discussions in their private correspondence and the new policy was not publicly acknowledged till 1871.[80] These are some instances of the government's anxiety about public reaction. This anxiety was more acute in the years after the Mutiny—as is evident from Wilson's private correspondence with Charles Wood[81]—but even afterwards it continued to be a constraint on financial policy—a policy increasingly subjected to critical public scrutiny.

A third kind of constraint stemmed from the fact that the Indian empire was itself treated by the Home government as a sub-system, only a part of a world-wide empire, and was called upon to make 'sacrifices' at the altar of 'larger imperial interests'. The sub-system naturally defended itself as best as it could from overly large demands on its meagre resources. For instance, the British War Office and the Admiralty foisted on the Indian Government large expenses which the latter tried to reduce or to avoid. Cardwell at the War Office contended that India was justly charged for the expenses of British forces who could be considered as reserves employable by the Indian Government at times of emergency; a somewhat unequal distribution between India and Britain of military charges incurred in expeditions outside India was also practised and defended by the War Office.[82] Argyll, while conceding that some of these expenses thrust on India were excessive, maintained that the military expenditure question was "not Indian only but imperial" and "cannot be determined alone with reference to Indian requirements of the moment".[83] The Government of India's negotiations with the War Office, through the India Office, failed to reduce

the levy on India. And Lawrence's protest against this denial of "justice or fairplay" and Mayo's fears about "dissatisfaction here that will be difficult to allay" went unheeded.[84] Similarly the Indian Government put up a strong case against the payment by India to the Admiralty an arbitrarily fixed annual amount for general naval defence in the Indian Ocean. "It is a duty which I presume she [England] performs in return for the advantages of commerce . . . ." wrote Lawrence; Mayo characterised the arrangement succintly as "a flagrant piece of piracy".[85] These and other instances of the defence of Indian government's interests are sometimes cited as instances of the impartiality and 'nobility' of the guardians of India. That is as it may be. It was natural that members of the Indian Government would try (though in these cases ineffectually) to reduce external demands on *their* government's revenue. Exactly similar was the behaviour of Provincial Governments and the administrative departments who scrambled for as large a portion of the central (or Supreme) Government's funds as possible.[86] This was the general pattern of reaction of a sub-system to infringements on its resources.

Apart from these systemic needs—the need to maintain financial viability, the need to preserve the "reputation for good faith" under public scrutiny, and the need to prevent encroachments on its resources—there were other factors, rational and irrational, conditioning the Indian Government's decisions affecting the interests of the metropolitan country and British nationals in India.

First, the irrational elements: We have argued that it was easier for British interest groups to obtain "sympathy" because of their social access to the decision-makers and their ability to apply social pressure. If this was true, it was also true that there were individuals among the top members of the government inclined to be rather distant, individuals who

did not feel intimately concerned with the doings of, let us say, a British jute merchant in Calcutta or a dealer in raw hides in Bombay. An aristocrat like Mayo held in contempt the non-official Europeans in India, i.e. the Europeans in trade and industry : they "come here to get as much money out of the Blacks as they can . . . . I have no sympathy with this class and they know it".[87] There was supposed to be similar absence of "active sympathy" between Sir Charles Trevelyan and the British merchant community in India. Among the Finance Members Wilson was the only one who had been in a fairly humble trade, manufacture of hats, and a general disesteem for such a trade was reflected in the jokes and political cartoons of the day. (Two of such cartoons are included in this book). Elgin wrote with a touch of irony that the first two finance members, James Wilson and Samuel Laing (who was connected with some railway enterprises), belonged to "the middle-class speculative business hierarchy, a sort of Brahmins in the sect".[88] All the Viceroys, with the exception of John Lawrence, were aristocrats and as a rule men of that class did not esteem traders highly. At the same time, they held a commonsensical view about the value and importance of British trade and enterprise in India. Moreover, the Indian Civil Service despite its elitist pride, was not as upper class in its traditions and social composition as the Foreign Service for instance. Many of the "competition-wallahs", as G. O. Trevelyan called them, probably did not share the aristocratic contempt for trade. In any case it does not seem that upper class prejudices were so strong in the Secretariat or in the India Office that a typical official would look upon traders "as an old maid looks upon all men—as being in a conspiracy to surprise him into some illicit favour".[89] Mere snobbery has never deterred the trader and appeals to national sentiment ("the brightest jewel in the crown of our sovereign" . . . "this far flung

empire" . . . "the sun never sets" . . . etc.) are known to have worked wonders.

The inertia of the bureaucracy, the slow dignified motions of the governmental machine, the sanctity of the 'departmental view' and the unwillingness of the average bureaucrat to deviate from it, also stood in the way of businessmen in a hurry to get what they wanted. Only a crisis like the Mutiny in conjunction with a critical event, the expiry of the East India Company's tenure, dislodged the government from the traditional grooves. In the 'sixties the new policy lines laid down by Wilson and his successors were worked out and some policy notions became almost unquestionable axioms for the decision-makers from the highest level to the lowest. These fixed notions, collectively known as the 'departmental view', were based on an economic theory of a sort : we shall return to this subject later.

The decisive factor, subject to the constraints we have mentioned above, was the degree of pressure an interest group could mobilise. It depended on how effectively the methods we have described were used and whether or not the government was being pushed beyond the limits set by the over-all financial situation ("balanced budget" or "solvency" was a fetish of the day), the Home authorities' "line", the "departmental view", etc. Not all the British interest groups were equally successful in influencing decisions. Dundee or Manchester interests were obviously more influential than, let us say, the British grain merchants in Burma (they wanted in 1867 the grain duty to be reduced and had to wait till 1873) or the British firms in the business of exporting saltpetre from India and re-exporting it from England (their agitation for reduction of duty started in 1860 and met with partial success 5 years later). The firms in the grains or saltpetre business were small ones and had little leverage : only the

support of the Chambers of Commerce enabled them to obtain the concessions they wanted.

Thus the decision-makers were not equally responsive to all British interest groups. It is also worthwhile to stress the point that the interests of all British pressure groups were not exactly congruent at all times and on all fiscal issues. Each group, in order to gain general support, represented its own sectional interest as the 'national interest'. But it will be absurd to take such claims seriously or to assume a complete homogeneity of interests, at least from the short-term point of view. This is obvious when one considers, for instance, the jute manufacturers of Dundee (who demanded and obtained the abolition of import duty on jute manufactures) and the British jute-mill owners in Bengal, the manufacturers of cotton goods in Manchester and the British exporters of textile machinery, or the British merchants' demand for retrenchment in administration (so as to reduce the tax burden) and the bureaucrats' opposition to retrenchment. We shall see in the following pages that these cross-pressures, the coalitions and reconciliation between interests, and the competing campaigns to influence public opinion and decision-makers present an extremely complex picture. This complexity tends to be ignored by those who assume a total homogeneity of interests, fail to give due weightage to possible irrational elements in decision-making, and underestimate the constraints on the decision-makers.

We have argued that (a) in the process of decision-making on questions of public finance a number of interest groups participated, each trying to obtain decisions most favourable to itself (e.g. investors tried to ensure state-guaranteed interest, merchants to develop roads and harbours and other economic overheads, planters and miners to have enacted suitable land regulations, the urban professional people to get state-subsidised education, merchants and land-owners to institutionalise access

to decision-makers in the form of representation in the Legislative Council etc.) or decisions least unfavourable to itself (e.g land-owners tried to lower levy on agriculture income, merchants to reduce business taxes like the License Tax, importers and exporters to reduce tariff duties, planters to relax restrictive land laws, and tax-payers in general to retrench public expenditure) ; (b) the outcome of the interaction process between pressure groups and decision-makers, was affected by the cross-pressure of various competing, aligned and antagonistic groups, by certain constraints external to the particular relationship between a pressure group and the government, and by some irrational elements such as social snobbery or idee fixe as well as personal predispositions of individual decision-makers; (c) thus the outcome was not exactly predictable, but there were biases which made some outcomes of the decision-making process more probable than others : British interest groups (enjoying superior advantages in respect of, inter alia, lines of communication direct to the apex of the pyramid viz the India Office and Parliament, social access to decision-makers and the ability to use social pressure, familiarity with the art of lobbying, and greater co-ordination of action on the intra-group and inter-group level) stood a far better chance of obtaining decisions favourable to themselves. The cumbrousness of this statement is unfortunate, for it was quite an elegant and subtle game.

It would have been simpler and possibly easier to start from a 'grand design' (or a 'sinister design', depending on one's point of view) and to derive a picture of the "policy" from a set of policy statements contained in budget speeches, Moral and Material Progress Reports, the annual financial review in Parliament etc. That approach and the use of the term "policy" for an intended course of action as well as the course of action actually pursued obscures the distinction between what may be called 'policy notions' and 'policy in

operation'. The latter can be mapped only if—instead of proceeding from a grand design—we rebuild the pattern from fragments of actual decisions and actions, if we contextually study the emergence of decisions, if we pay attention to what at first sight may appear to be tedious minutiae of interactions between the decision-makers and others who influence the process whereby a series of decisions, i.e. a policy, takes shape. The fact that interest groups do play an important role is often missed by those who concentrate attention exclusively on the policy notions. At the same time, it is undeniable that the continuity of policies and the persistence of a pattern in the decision-makers' responses cannot be fully explained unless we take into account their notions about what the policy ought to be, 'the principles of political economy' they habitually invoked, their style of thinking and attitudes, and the ideology of empire as a whole. We shall confine ourselves to that segment of the imperial ideology which was immediately relevant to financial policy-making.

Among economists who directly influenced financial policy in India the foremost was James Wilson, the first Indian Finance Member. He is remembered today chiefly as the founder-editor of *The Economist* of London. He had a modest reputation as the author of several economic tracts. One of his contemporaries, Karl Marx, accurately assesses his status in describing him as "an economical mandarin of high standing".[90] Modern economists who have noticed his writings—Schumpeter and Cairncross among others—do not find much originality in his economic analysis.[91] His contribution to the science was negligible but he was, as his son-in-law Walter Bagehot put it, a "great belief-producer", i.e a brilliant populariser.[92] This faculty combined with his grasp of "the *practical* value of the science of political economy" enabled him to overshadow many obscure theoreticians. (E.g. one such forgotten figure was Edward West who, like Wilson, came

to India and died prematurely : West made important contributions to the theory of falling rate of profit and, in rent theory, anticipated Ricardo—who acknowledged the fact—in formulating the law of diminishing returns, but was unable to pursue economic studies after his departure from England to serve as the Recorder and Chief Justice in Bombay).[93]

Besides his familiarity with contemporary economic thinking in England, Wilson had acquired first-hand knowledge of fiscal affairs while he was Member of Parliament, Financial Secretary to the Treasury, and Vice-President of the Board of Trade. As the Indian Finance Member Wilson resolved to introduce major institutional changes and nursed the "hope of giving permanence to the influence of economic principles in the financial administration of India".[94] His understudy in the Finance Department, Sir Richard Temple, summed up Wilson's financial measures as follows : "he introduced for the first time in India a financial budget framed upon the English model—inspired the public mind with fresh confidence—brought together the threads of finance which had been broken and scattered by a military and political convulsion—proposed to legislature three new taxes and carried one of them, the income tax, through several stages in the Legislative Council—devised a scheme for the government paper currency—stimulated the operations of the Military Finance Commission over the entire range of army expenditure for both the European and Native forces—procured the appointment of a Commission to review the numerous branches of civil expenditure—reviewed the existing system of audit and account—besides discharging the multifarious duties devolving on a finance minister and a member of the general government".[95] Temple emphasises mainly the administrative innovations. These we have discussed in appropriate places in the chapters which follow (with the exception of the currency policy which is beyond the scope of the present work). Perhaps more important than these

institutional changes was the policy orientation which Wilson effected.

Wilson drew his policy guide-lines from recent British experience with policies of economic liberalism. His budget speech of 18 February 1860, where he expounded for the first time Indian financial policy as an integral whole, was very much in the manner of Gladstone's famous budget speech of 1853. Indeed Wilson's critics thought that his tendency to apply contemporary British principles of finance was so strong that it amounted to a fault. To Trevelyan, for instance, the fact that it was "simply a Gladstonian Budget" was its chief fault : to Wilson's immediate colleagues and to the Anglo-Indian Press that was its principal attraction.[96] Gladstonian principles of finance, as Schumpeter points out, were, in contemporary England, almost unquestionable axioms.[97] Some of Wilson's successors directly received Gladstone's advice on various matters.[98] However, such direct advice came infrequently. It was Wilson who was chiefly responsible for introducing in India principles of public finance associated with the name of Gladstone. One of the cardinal principles was that the government must aim at a "balanced budget", i e. a surplus of revenue over expenditure. This was the aim of Wilson and all his successors to the end of the nineteenth century : but the Gladstonian principle that the surplus should be applied to redeem the public debt was not consistently followed. Another article of faith was epitomised in the phrase, "taxation for revenue only". This meant that revenue should be raised in such a way as to cause minimum interference ; taxation must not deflect economic behaviour from what it would have been in the absence of all taxation. Two corollaries of this principle were important for Indian policy-makers : there must be no protection of indigenous industry as a result of tariff and no progressive taxation as far as direct taxes were concerned

What the government of India meant when they declared that "no import duties are levied in India for other than fiscal purposes" may not be clear at first sight.[99] The meaning was spelt out clearly by Wilson's successor, Laing: "the principle of Free Trade is to impose taxes for revenue only" and the tariff must not be allowed to "stimulate the growth of protected interest".[100] Progressive taxation was firmly rejected as an affront to the basic principle of economic liberalism. To a group of petitioners who wanted Income Tax on a "graduated scale" Wilson replied that it is not the object of taxation "to equalise the conditions of men".[101] Finally, the principle of laissez faire, implicit in the above principles, also meant, in terms of public policy, a narrow conception of state functions and, in terms of financial management, the reduction of public expenditure to the unavoidable minimum. Though the laissez faire principle was often invoked in defence of a policy of studied inaction in certain policy areas, it did not serve as a guide to practical policy. The policy actually pursued, we have argued (Chapter I), may be more correctly described as discriminatory interventionism than laissez faire.

Apart from these *general* notions derived from the philosphy of economic liberalism and the financial principles associated with the name of Gladstone, there was what one may call a '*special* theory' for India. While dutifully chanting phrases epitomising the conventional wisdom of the day (balanced budget, laissez faire. taxation for revenue only...etc.) the policy-makers were fully aware of the special needs the government had to meet in the Indian empire. First, the need of security: the army was the ultimate basis of British dominion even if the compliance of the majority and the active collaboration of a minority among the subjects could be secured without frequent resort to the sword. Keeping military expenditure to the minimum was an ideal that could be pursued at home but in India it was folly to weaken the army by following

a stingy policy. The need for a large European army stationed in India was underlined by the experience of the Mutiny. The costs of such an army, usable as a reserve force outside India, could be foisted on the Indian taxpayer. The native forces were also available for similar deployment should the need arise. The political advantages of such an arrangement were immense—it allowed England to intimidate her enemies in Asia and Africa and at the same time to relieve the taxpayers in England. (Chapter III, pp. 90-104 infra.) The Secretary of State pointed out the very special character of this arrangement when Mayo proposed military retrenchments in order to reduce financial deficit: the level of military expenditure "cannot be determined alone with reference to Indian requirements of the moment".[102] In the early 'sixties there took place extensive retrenchment—carried out by the Military Finance Commission headed by Col. Hume, the nephew of the famous English radical politician Joseph ("Retrenchment") Hume—but the aim was mainly to reduce the size of the native Indian forces so as to maintain a safe proportion between them and the British forces stationed in India.[103]

Second, it was also felt that, under the special circumstances in India, encouragement of capital investment in India was needed in the form of state guarantees or some form of subsidy. The most well-known instance of what has been called 'private enterprise at public risk' was the construction of Indian railways on the basis of contracts guaranteeing interest to the investors. The latter were almost exclusively British : of the total number of snareholders, numbering 51,890 in 1870, about 0.6 per cent were Indians and they held slightly more than 1 per cent of total investments.[104] We need not anticipate here what has been said elsewhere (Chapter III) on this arrangement. The government's experience in railway development made it wary of similar

arrangements in other fields. An irrigation company in Madras, formed with £1 million capital under a government guarantee of 5 per cent interest, was a notable exception. It was formed at a time when the Manchester Cotton Supply Association was pressing the government to allow "the surplus capital and free enterprise of England" to develop public works to increase cotton production in India.[105] By 1870 the government was moving away from guaranteed interest arrangements. In the early 1860's the government was anxious to "aid the merchant promptly without exceeding its legitimate functions".[106] Towards the end of the decade, while aware of the drawbacks of the guaranteed interest arrangement, the government was asserting that "it may often be the duty of the government to act as the pioneer of private enterprise".[107] This role, however, was played by the government only in the case of tea industry: much of the initial outlay and the entrepreneurial risks were the state's and the British planters took over when it looked like a safe proposition.[108] (There were some isolated and abortive endeavours of the same sort in iron and steel industry in the pre-Mutiny period.)[109] On the balance the government was inclined to "aid the merchant" indirectly, rather than play an entrepreneurial role.

This indirect aid was mainly in the form of economic overheads. J. S. Mill emphasised this role of government in a backward economy.[110] James Wilson felt that the foremost duty of the Indian government was to provide "public works and roads with a view to increased production of cotton, flax, wool and European raw materials".[111] In the early 'sixties the emphasis was on "cotton roads": the promoters of railway companies had also stressed the value of railways to reach the cotton producing districts. In their memorials to the Court of Directors and the Secretary of State the Cotton Supply Association demanded increased investments in public works, roads, harbours, etc. to facilitate export of raw material.[112]

The 'cotton famine' during the American Civil War added urgency to these importunities. At the height of the Manchester crisis the India Office was vigorously prodding the Indian government: "Your expenduture on works of irrigation, cotton roads, or other works calculated to aid the commercial industry of the country should only be limited by the necessity for taking care that full value of the outlay is obtained".[113] Bombay Presidency, the main supplier of raw cotton, received in the period 1863-66 about 24 per cent of the total ordinary public works investments, compared to 17 per cent spent in Bengal Presidency and 13.9 per cent in Madras. The average ordinary public workers expenditure per year in Bombay in the period 1863-72 was Rs. 79 per square mile; the corresponding figures for the North-Western Provinces, Bengal and Madras were Rs. 79, Rs. 34 and Rs. 45 per square mile.[114] The resumption of cotton supply from America in 1865 and the experience of the Orissa famine modified the policy of giving Bombay preferential treatment and according priority to feeder roads leading to railways over irrigation facilities. But there remained a major constraint on public investments in economic overheads: this was the unwillingness of the Home authorities to support 'unremunerative' works, i.e works which did not yield revenue to take care of interest charges on capital spent on public works construction. (Chapter III, pp 116-120.).

Fourthly, it was believed that the government should do all in its power to help India perform her special role as the supplier of raw materials. To encourage export of raw materials was "the best means of improving our internal resources" (Wilson), "agriculture must be her staple industry" (Trevelyan), and the "exchange of manufactures [from Europe] . . . for those raw staples in the production of which this country has especial advantage" (Bengal Chamber of Commerce) was the ideal division of labour between the

colony and the metropolitan country.[115] Wilson laid down the guide-lines by keeping raw cotton, jute, hemp, wool, hides, timber, etc. free of export duty, along with tea and coffee, the product of European-owned plantations. (vide p. 190 et seq.) One corollary of this proposition, that India's economic role was to supply raw material, was that certain types of capital goods needed for raw material exploitation should be imported without hindrance. Plate-iron for hulls of steam-ships, machinery for agriculture (mainly plantations), mining and railway equipments were imported duty free from 1845 onwards. (vide p. 192 infra.) Even this aroused suspicions in Manchester: India was "doing wrong in giving an impetus to the introduction of machinery into India, their natural trade being the production of the raw material".[116] A second corollary to the proposition, that India's role was to supply raw materials to Britain, was added by some enthusiasts—that Britain should 'colonise' India. Wakefield's *Art of Colonization* (1849) had drawn attention to the immense possibilities of increasing the 'productive capacity' of North America and Australasia by facilitating the migration of capital and labour from Britain. Edward West advocated colonisation of India on those lines. The title of his tract on the subject sums up his programme: *Emigration to British India: profitable investments for Joint Stock Companies and for emigrants who possess capital: Employment for enterprising and intelligent men: Ample supplies of raw cotton, silk, sugar, rice, tobacco, indigo and other tropical productions: Increased demand for manufactured goods . . . .* (1857). In the early 'sixties there were a few enthusiastic proponents of this 'colonisation' idea and it might have added weight to the planters' case for alteration of land regulations to allow distribution of waste land as freehold tenure. In the event the expectation that many Europeans would come and 'settle' proved illusory. West

was not quite familiar with the country he wanted his compatriots to colonise. Moreover, as Merivale had pointed out in criticism of Wakefield's scheme, development of colonies was not an end in itself and profitability was more important than artificial aids to migration and investment.[117]

Given the neo-mercantilist notion of complementary development within the empire and the stress on India's comparative advantages in the production of raw material, excessive concern for her manufacturing potential could not be expected. What of the traditional manufactures? The portentous "de-industrialisation" question was glimpsed only occasionally like a semi-mythical monster. That it was not something entirely mythical was the belief of the only Finance Member who conducted an enquiry into an indigenous industry. The enquiry was instituted by Trevelyan at the request of the Bengal Chamber of Commerce. In 1862-64 there was a temporary slackening of demand for Manchester piece-goods: a slight rise in the price of English cloth during the American Civil War, substitution of hempen and woollen cloth for cotton, the "diversion of available capital in the more profitable speculation of exporting cotton" and temporary tightness in the Indian money market accounted for the fall-off in demand.[118] The Bengal Chamber's apprehension that cotton "admits of being manufactured into cloth at a less cost than that paid for Manchester goods" was understandable.[119] Trevelyan started an enquiry which extended to the district level in Ondh, North-Western Provinces, Central Provinces and Bengal. (vide pp. 189-90 infra). The enquiry revealed that the slackening in demand was due to the causes mentioned above—and that native weavers were losing ground in the Indian market because of the rise in the price of raw material after the beginning of the American Civil War. Trevelyan reported to Sir Charles Wood that the rise in price of raw cotton (combined with the fact that due to large

stocks the price of English cloth had risen slightly) added "greatly to the embarrassment of the native weavers . . . amounting in many cases to serious distress".[120] The latter were "forced by the high price of cotton to contract and in numerous places to give up the manufacture of cotton".[121] But such was "the healthy progressive state of Indian society", that "although the distress has been severe, it has been borne without external relief, partly owing to the circumstance of the weavers being generally agriculturists as well as manufacturers, but still more in consequence of the general active demand for labour. And lastly, the pressure upon the great weaving population (which as you know is settled over every village in the country besides being collected thickly in towns) has had the beneficial effect of hastening the transition from manufacture to agriculture equally to the benefit of India and England . . .".[122] The findings of Trevelyan's enquiry were not, of course, conclusive. The native industry showed surprising resilience. Nevertheless, the findings were important for it was the only systematic enquiry into an indigenous industry in this period. The atrophy which Trevelyan thought was in progress was not universally regarded as an inevitable consummation of a desirable process. A decade later Ashley Eden saw the implications in a different light : "If there is one thing to which we must look more than to any other for the means of meeting the social difficulties likely to arise from over-population, it is the creation of a manufacturing class, and the relief of the land from the support of double the number of men it can properly maintain".[123] However, to the majority of their colleagues in the administration Eden's anxiety was an amiable eccentricity and Trevelyan's enquiry a task of supererogation. The issue did not attract any attention until, in the last quarter of the century, reports of Famine Commissions and writings of

nationalist historians compelled retrospection if not re-appraisal.

While the pragmatism and aversion to 'theoretic reasoning' of the average bureaucrat was almost legendary—indeed a matter of pride in I.C.S. folk lore—Finance Members imported from England, Wilson, Laing and Massey, liberally draw upon the fund of ideas and principles of "political economy". Thus the 'benefit principle' was invoked in defence of special taxes on business classes. "All classes have no doubt been benefited . . . but beyond comparison the chief benefit has been conferred upon the capitalist and trading classes."[124] This was in defence of the License Tax which would compel the classes who benefited from British rule to "contribute their fair share of the cost of these advantages". The argument that subjects must pay taxes according to the benefits they derived from activities of the state has, of course, a very respectable lineage going back to Hobbes and Grotius, but its use is rather curious because contemporary economists, particularly J. S. Mill, had rejected the principle of interest or benefit.[125] Adam Smith's 'principle of ability' was endorsed by Ricardo and J. S. Mill. Probably due to Mill's influence the ability principle was also cited by Wilson and Laing in conjunction with the benefit principle. The ability principle was a handy weapon against landlords in Permanent Settlement areas who were eminently able to pay taxes while enjoying unfair exemption under a false interpretation of Regulation I of 1793. The benefit principle and the "costs" approach—i.e. the argument that subjects should contribute towards costs of services rendered to them by the state—was also prominent in the discussions on Stamp Tax. Wilson argued that the costs of administering commercial law, courts of justice, etc., should be borne by the traders and bankers.[126] This justified a special stamp duty on documents of commercial transaction. This argument was extended to the general

stamp duty on all judicial and legal documents : litigants paid, at least in part, costs of administering justice. (The general stamp duty was also justified on the ground that it checked needless litigation).

At any rate, neither the benefit principle nor the ability principle, had any practical significance. The idea which did have such a significance was the "principle of equality" inherent in economic liberalism : taxation ought not to be allowed to disturb the existing relative distribution of income and property. Progressive taxation was ruled out. It was not the business of the government, wrote Wilson, "to equalise the conditions of men".[127] Although James Mill in an obscure passage in his *History of India* had conceded that progressive taxation was defensible in terms of the Benthamite theory of diminishing marginal utility of income, J. S. Mill and orthodox exponents of principles of public finance were strongly opposed to progressive taxation which would be "a tax on industry and economy . . . . a penalty on people for having worked harder and saved more than their neighbours".[128] Even J. S. Mill, however, recognised the need to differentiate between earned income and unearned increments in land values, and advocated death duties. But the principle of differentiation on the basis of source of income was not accepted by Wilson and his successors. The Bengal Chamber of Commerce and the Calcutta Trades Association argued that "fruits of industry" should be taxed at a lower rate than income from land property.[129] The Calcutta Trades Association invoked Mill's name in defence of their position but the charm failed to work. Though the government did not recognise differentiation between terminable earned income and income from capital, increments in land values, etc., the principle of non-discrimination against any particular group was gradually accepted as a strong argument against License Tax on business and professional income. A

slightly higher rate on upper income groups was enacted in 1860; but Wilson was careful to explain that this was to prevent the "double action" of License and Income Taxes on lower income groups who paid both the taxes and not a concession to the progressive taxation principle.[130]

These direct taxes contributed a negligible proportion of the total revenue—never more than 5 per cent in this period. The two biggest sources of revenue were land revenue and opium revenue which accounted for more than 40 per cent and 15 per cent of the government's income. Opium revenue was derived in part from duties on opium, mainly produced outside British India in the central Indian native states, passing through Bombay. And in part from sale of Bengal opium which was the government's exclusive monopoly. This archaic monopoly was, naturally, questionable from the free trade view point as well as the humanitarian and ethical angle.[131] The government displayed characteristic pragmatism in rejecting both these arguments and retaining its monopoly: "We have committed many follies", wrote Mayo, "for the sake of 'an idea' but I hope we shall not perpetrate such an act of idiotcy [sic; abandonment of opium monopoly] as this"[132] The anti-opium idealists failed to make a dent in the government's resolve to hold on to the monopoly.

From the calculation of what was called the "tax burden" the government excluded opium revenue as well as land revenue. Opium was correctly excluded but the nationalist spokesmen vigorously contested the exclusion of 'land tax'. The official view was that land revenue was not a tax. The importance attached to such a mere definitional matter might appear inexplicable. The influence of the utilitarian doctrine alone does not account for it J. Strachey was no doubt influenced by that doctrine when he wrote: "From time immemorial the State has possessed, both in theory and in practice, the greater part of the property in land in India, and

has taken such portion of the rent as it has appeared possible or expedient to take. The land revenue of India is simply this portion of the rent of the land".[133] It is pointless to stress the dubiety of this as a historical statement or to trace the vintage of the phraseology and the provenance of the idea. The question is why, in a period when utilitarian influence was declining, this remained an article of faith, and why the definition of land revenue as a portion of rent and a non-tax source became important in the official credo. There was more to it than just loyalty to Ricardo or Mill. The government found it both possible and expedient to increase its income from land and tried to get back in *taxes* what it had relinquished on the conclusion of permanent settlement of land *revenue* in some of the prosperous and eminently taxable parts of the country. Wilson's Income Tax was the first attempt to tax the zamindars. He rejected the "pretensions of the zamindars" to exemption from taxation.[134] If land revenue was defined as a tax the Permanent Settlement could be interpreted to mean permanent exemption of the land revenue payers from further demands on them (i.e. Income Tax, Road Cess, Education Cess, etc.) Hence the government's insistence on the definition of land revenue as a portion of rent, a non-tax source of income. Moreover, such a definition allowed the government to exclude land revenue from estimates of the so-called "tax burden" : if it was excluded, along with opium revenue, the per capita tax burden appeared to be half of what it would have been if they were included. Indeed, it seemed that the mass of the people hardly paid any tax at all : their only contribution to government revenue which could be called 'tax' seemed to be the duty they paid on salt. This was the official view and it was dutifully echoed by the Anglo-Indian Press.

Our assertion that the influence of Utilitarianism was declining in the 1860's needs qualification. The policy, ini-

tiated by Canning, of restoring the landed aristocracy in northern India to the position they traditionally occupied in the social order, and the conservatist resolve to de-fuse the explosive legislative weapons for social reform after the Mutiny signalised the beginning of a new era characterised by a qualified laissez faire philosophy of government. In the sphere of land revenue policy J. S. Mill[135] correctly diagnosed "a reaction towards landlordism" away from the utilitarian line championed by Bird, Pringle and Thomason. Mill warned his influential friends, H. S. Maine and W. T. Thornton, against this reaction and, to drive the point home, dwelt on not so much the theoretical implications as the practical consequences he apprehended. In the long run, Mill said, the Permanent Settlement of land revenue by arrangement with landlords would be "a bad bargain for the government". But by 1862 the government was already committed : in 1862 Sir Charles Wood decided that Permanent Settlement would be introduced in areas of temporary settlement as soon as practicable. The reasons why the government gradually receded from this decision have been discussed in Chapter IV (pp. 152-172 infra.) It can be argued that the theoretical considerations—pro and contra utilitarianism—had little significance so far as this decision was concerned. Antagonists of Permanent Settlement did invoke the utilitarian rent doctrine (e.g. Sir John Strachey)[136] but it was not this which deterred the Government of India from extending the Permanent Settlement. The reasons were the depreciation of the price of silver and the progressive rise in land values—which Sir Charles Wood and the protagonists of Permanent Settlement could not foresee in the early 'sixties—and, finally, the difficulty the government experienced in framing a system of taxation which would enable the government to recover what it would lose if it gave up a claim to share in future increase in income from land. To place the utilitarian philosophy in the centre and to inter-

pret land revenue policy in terms of the acceptance or rejection of *that doctrine by individual administrators is to miss the* point: such an approach magnifies the influence of ideas disproportionately, underestimates the sound pragmatism of the decision-makers, and loses sight of the financial structure and the economic scene as a whole. The conflict of ideas over the Permanent Settlement question was, however, interesting in that it confronted utilitarianism with an alternative social philosophy. To Sir Charles Wood and to S. Laing who presided over the India Office and the Finance Department at the time when the decision to extend Permanent Settlement was made, it meant an alternative to the utilitarian social vision. It meant "the foundation for a state of society, not perhaps so easily managed, but far more varied and richer in elements of civilisation and progress", a society where "the gradual growth of a middle class connected with land" would be possible.[137] The possibility of the emergence of a landed gentry "almost certain to be well-affected to the government" was a strong inducement. In the event the plan of extending Permanent Settlement was postponed and then abandoned (1871), but this was not so much a triumph of the utilitarian over the laissez faire approach, as the outcome of the policy-makers' purely pragmatic reactions to inexorable economic changes (fall in silver prices in the world market and rise in land values in India) over which the government had no control.

The Mutiny gave a jolt to the faith in the felicific calculus and the pale abstractions of utilitarians. The Mutiny also brought in its wake a shock of recognition, a heightened awareness of the role of the ruling race in the country they had conquered. Latent racialism became explicit. The Mutiny was generally regarded, to use John Lawrence's phrase "a war of races" and racial feeling ran high in the post-Mutiny period.[138] This not only raised a social barrier between the subject and the ruling races—a social distance that proved

to be important in the game the pressure groups played—but also gave birth to racial theories. An explicit statement of racialism combined with and in support of authoritarianism was to be found in the writings of J. Fitzjames Stephen, the Law Member (1869-72) in the Governor-General's Council. In *Liberty, Equality, Fraternity* Stephen expressed ideas implicit in the attitude of the authoritarian bureaucrat ruling over "lesser breeds without the law" : the basic inequality of men, "superiority of the conquering race", the necessity of autocratic government by members of the conquering race.[139] This brand of authoritarianism was theoretically an extension of an element of it implicit in utilitarianism and historically a justification of the imperial sway of one race over another. More successful than Stephen in braodcasting the imperial message was Sir Charles Dilke, author of *Greater Britain* (1868). His concoction of Gobineau's idea of racial inequality, a vulgar interpretation of Darwin, and a grandoise vision of the oneness of the Anglo-Saxon race all over the globe reached a wide audience. India, Dilke thought, was one of the dependencies which ought not to be denied the benefit of British rule. The studies of primitive communities and laws by Sir Henry Maine, Law Member in the Governor-General's Council (1862-69), belonged to a different intellectual plane. His views on the arrestation of development of the Indian society were variously interpreted. Maine's views on a common "Aryan" heritage of the Indo-European peoples could be used as a sedative and a salve which Indian self-esteem badly needed : his theory of stagnation of the Indian branch could be used to denigrate the subject race. Walter Bagehot of *The Economist* and T. E. C. Leslie, the economist, were deeply influenced by Maine's writings.[140] Leslie (who had attended Maine's lectures at Trinity College, Dublin) emphasised, like the German Historical Economists, the distinctiveness of non-Western economies and Bagehot owed to Maine an

awareness of what he called the "pre-economic stage" of social evolution. The implication as regards economic policy-making was clear—economic principles suited to developed western societies might not be applicable to the backward economies. Whatever the specific recipe for India might be there was no doubt that the British Indian government's role was far greater than the role assigned to government in Western societies. John Strachey quoted with approbation Stephen's statement that Britain's role in India was that of "a belligerent civilization". Strachey was not conscious of any irony when he wrote, "because it is our highest duty towards India itself. we intend to maintain our dominion".[141] Nor was Argyll striving after an epigrammatic parodox when he said, "it is one of our first duties towards the people of India to guard the safety of our own dominions".[142] To those who accepted the imperial ideology England's right and duty to rule in India was beyond question.

And yet a doubt would sometimes raise its head like a monster lurking in a sea of good intentions. Was India being prepared, asked Trevelyan, for the moment when the "masters and teachers" would depart?[143] Was it not irrational, asked Comte's positivist disciple, Richard Congreve, for Europe to adopt an ethnocentric view of social evolution and look upon India as an inferior civilisation and impose on her a government characterised by "reckless want of sympathy"?[144] Did Britain squarely face the question, asked James Wilson, whether India was to be governed perpetually by Britain or whether India was to be gradually prepared for self-government?[145] Such doubts were not generally voiced by the British in India in public. The only occasion when it became a public issue was the socalled 'Madras rebellion', i.e. the Governor of Madras. Charles Trevelyan's outburst against the budget of 1860 and the policy of financial centralisation. (vide pp. 58—61, infra). Trevelyan's motives or reasons were

perhaps mixed. Partly it was his sound administrative sense : he detected the dangers of excessive centralisation long before the government in Calcutta saw them and took steps towards decentralisation. Partly it was Trevelyan's lack of tact, unflinching sense of public duty and an argumentative temper : he was strong in debate and a tendency to display his strength was his chief weakness. Partly the Madras flare-up was a symptom of what the *Friend of India* termed "the spirit of localness" i.e. the jealous spirit of independence of the Madras and Bombay civilians.[146] But differences over administrative feasibility, zeal for debate on the part of civil servants, or provincial jealousies were not unknown. They never caused anything like the storm which Trevelyan had to face. The reason why Charles Trevelyan was denounced and dismissed and recalled to England was that he had voiced fundamental doubts. "In India notwithstanding a studious imitation of the forms of popular assembly we are farther from real representation of local interest than over."[147] The government, Trevelyan protested, was transplanting the English financial system but a basic requirement of that system, representation of tax payers, was wanting. In the absence of a genuine representative system public opinion might be expected to be a check on the government. But the opinion of the British community in India was being mistaken for public opinion. "The reduction from 20 to 10 per cent [duty] on the principal articles of European consumption in this country and the transfer to the free list of the principal raw materials of our home manufacturers have made the budget popular with the ruling class, which represents what we call public opinion." Trevelyan's criticism of "class legislation" could not be allowed to pass : while complaining to the Secretary of State, the Governor-General in Council singled out this passage as particularly exceptionable and dangerous. Trevelyan's second cardinal sin was that he affronted the government's *izzat*. The

Governor of Madras had made public his critical views on Indian financial policy and had drawn the natives into the discussion. We, i.e. the Governor-General in Council, wrote Canning, must "uphold our own—I will not say—infallibility, but—unquestionability to the utmost".[148] In the style of government developed in India the idea of *izzat* had an important place. The stereotypes concerning the subject race and the "oriental mind", the feeling of insecurity engendered by the traumatic Mutiny experience, the nature of relationship between the British administrators and the subordinate or suppliant natives they habitually came in contact with—whatever might have been at the root of it, the importance the British bureaucrat ascribed to the dignity and prestige of the *sarkar* was paramount. Trevelyan's recall to England prevented "loss of face" and *izzat* was maintained.

Besides the fetish of *izzat* another element in the style of government can perhaps be traced to the stereotypes about the "oriental mind". The idea, not without some basis in experience, that in the interests of stability the support of the landed aristocracy, the 'natural leaders' of society, must be enlisted gained ground after the Mutiny. The policy of "restoration of the aristocracy" is beyond the purview of the present work.[149] But one aspect of this policy is relevant. Every Indian member nominated by the government to the Indian Legislative Council from its inception (1862) to 1872 represented landed interests, and the majority belonged to the landed aristocracy. Out of a total of 12 nominees, 3 were ruling princes (Patiala, Jaipur, and Rampur), 5 were landholders with the title of Raja, Maharaja or Nawab (Vizianagram, Kishenkot, Burdwan, Balarampur, Dacca), and the rest were *jagirdars*, *taluqdars* and *zamindars* (Deo Narain Singh, Dinkar Rao, Prasanna Coomar Tagore, Dheoraj Singh). Consultation of the opinion of these non-official members of the Legislative Council was merely a matter of form. The

Council met infrequently. In the first ten years (1862-71), for instance, there were on the average only 29 meetings per year.[150] In about one-third of these meetings no Indian member was present. On occasions when they were present their participation, judging by the record of proceedings, was negligible. Yet the nomination of members of the landed aristocracy conveyed the weight given to them by the government. Prasanna Coomar Tagore did not quite belong to this crowd—being a lawyer and having been a clerk of the old Legislative Council—but he represented the *zamindar* body in Bengal, the British Indian Association. He was also a landholder (in Bengal); so was Dinkar Rao (in Agra) whose additional claim to the honour of sitting in the Council was his loyal support to the Raj during the Mutiny. Maharaja of Balarampore, nominated to the Council in 1868 was the President of the British Indian Association of Oudh for twenty years (1862-82). This was a *taluqdar* Association whose opinion was consulted by the government (mainly on provincial matters) ; the Association was housed in the Kaiserbagh Palace given to them by Canning and in 1876 its association with the government was so close that the government undertook to collect Association dues from *taluqdars* together with land revenue.[151] The bias in favour of the landed aristocracy and their associations did not please the urban, educated, professional classes. Even the *Hindoo Patriot*, virtually an organ of the British Indian Association, remarked that "the educated classes are as a rule ignored" and that "Princes and chiefs ... no more represent Her Majesty's Indian subjects than would Louis Napoleon or Victor Emmanuel represent the commons of England".[152] (This was in 1870-71, two years after Prasanna Tagore's death, when there was no Bengali in the Council, the only Indian member who attended its meetings being the Maharaja of Jaipur.) In the next decade this resentment became stronger. In the first two sessions of the

Indian National Congress the demand for 'sectional representation' was voiced, for the leaders were anxious to open up the Council so that, as Surendranath Banerji put it, "all great interests are adequately represented".[153] The India Councils Act of 1892 partially satisfied this demand.

The ideology of empire has received from historians its due share of attention. Whether, in the recent plethora of obituaries after the end of the Raj, the stress on 'ideas' (trusteeship, paternalism, utilitarianism etc.) has created a myth of immaculate conception—as if the imperial policies were sired by the disembodied spirits of Burke or Bentham or Mill—should be of interest to future historians of historiography. The parallel tendencies in imperial and nationalist historiography, the focus on ideologues rather than interest groups, starts a train of speculation that we cannot pursue here. It is undeniable that such tendencies exist. A stress on the role of interest groups is therefore likely to be questioned either as an unfair characterisation of British policies (based on an exaggeration of the British interest groups' influence) or as an implied denigration of Indian nationalists (based on an ungenerous interpretation of their ideals and objectives).

In the period we have studied, Indians were unable to play the game the British interest groups excelled in. In the long run, however, their apparently fruitless exercises—the efforts to mobilise opinion, to organise associations, to publicise grievances etc—served to prepare the way for a national political party. At the same time, transcending the often conflicting sectional interests, there emarged a pattern of thinking that developed into economic nationalism. To stress the element of sectional economic interests in the system which secured compliance and collaboration with the Raj and in the objectives and activities of the proto-political associations of landlords and the urban middle-classes, is not to deny the above developments. We shall return to this subject in

Chapter V (pp. 270-74 infra). As regards the British interest groups, we have already mentioned the constraints on the policy-makers, constraints which would not always allow pressure groups to propel the government in any direction at will. It is also obvious that there were others besides business-men—ex-colonials, jingoist patriots, philanthropic enthusiasts, journalists, evangelists and the like—who were also interested in colonial questions; that one must not presuppose a monolithic uniformity in the views of all these groups regarding Britain's policies vis-a-vis the colonial dependencies; that the sentiment which Tennyson called 'the tone of Empire' was not the creation of 'stock-jobbing imperialists' alone; that it is wrong to assume an immanent homogeneity of all business interests in the short run; and that, more often than not, it was the short-run considerations which motivated the business groups.[154] We have to bear in mind these facts in order to make a realistic assessment of the role of the interest groups, especially the business interests. And, finally, we have to consider their role not in isolation but in the perspective of Britain's expansion overseas. One possible objection to highlighting the role of the British interest groups is that the geographical distribution of British overseas investment does not indicate that Britain's vital economic interests lay in maintaining the Indian empire, that British investments in India and the Empire as a whole were marginal to the total overseas investment, that economic interests therefore were not important in the making of imperial policies. This predictable reaction of the critics of the theory of 'economic imperialism' cannot be dismissed as a derivative of an "ideology": even if it is, the view merits examination in empirical terms. Since Sir George Paish's attempt (1911)—closely followed by C. K. Hobson's (1914) and L. H. Jenks' (1924) works—there have been three major attempts to quantify British capital exports, by A. H. Imlah (1958),

A. K. Cairncross (1958) and Matthew Simon and Harvey Segal (1961). There is now indubitable evidence that a very large proportion of British overseas investments went outside the Empire to independent countries.[155] The latest and the most impressive exploration in this area is by Simon (1967) who analysed a vast amount data—which would have been impossible without computers—relating to the geographical distributiton and industrial composition of new British portfolio foreign investment in the period 1865 to 1914. One of his significant findings was that only about 40 per cent of new British overseas lending went to the Empire and 59 per cent to independent countries. The share of the North and South American continents was largest (34 per cent and 17 per cent respectively) ; the continents of Asia (14 per cent) and Africa (11 per cent) accounted for relatively small portions of the total. About 68 per cent of trans-European British investment, according to Matthew Simon's estimate, went to the temperate regions of recent settlement. Between 1865 and 1873 new British portfolio investments in the Empire averaged £9.8 million per year compared to approximately £34.9 million in independent territories. (From 1874 investments within the empire increased, reaching a peak of 67 per cent of total in 1885, declined again—25 per cent in 1890—and again picked up during the 'nineties mining boom in Australia to reach a peak of 59 per cent in 1903).[156]

Capital flow from Britain took place in great spurts directed towards different parts of the world : the biggest spurt in India's case occured before 1865, the date from which Simon's study commences. According to L. H. Jenks, "from 1857 to 1865 the major movement of British capital was toward India . . .About seventy-five millions went into Railways by 1870, at least fifty-five million pounds of the Indian debt had come into British hands in addition to the stock which had been previously held. An estimated amount of twenty millions had

been ventured upon private account in tea plantations, jute mills, banks (both by means of shares and deposits) and shipping and mercantile establishments".[157] Thus Jenks summed up his data which ('the Jenks files') Simon has also used. While the majority of investigators, including C. K. Hobson and Cairncross, concentrated their attention on capital movements after 1870, the major spurt of British investments in India had occurred before that date. It is also important to stress the limitations of estimates based on data on new money called up through British capital market : A. R. Hall points out that the exclusion of deposits raised in Britain by banks operating abroad, purchases of securities on the Stock Exchange in other countries, direct investment by individuals and companies etc., is a major data limitation of studies based on creation statistics[158] While these limitations of Simon's estimates must be borne in mind, they do establish the tendency of new British investments to flow mainly to the New World and to countries outside the Empire. This was also the conclusion of Paish's study (1911) : British investments amounted to £1,647 million in the New World (of which £372 million in Canada) compared to £365 million in India and Ceylon, £380 million in Australasia, and £351 million in South Africa.[159]

The geographical distribution data have been widely used by the critics of the theory of 'economic imperialism'. Possibly a formal empire became in some parts of the world quite dispensable : informal imperialism could be equally if not more profitable. But is it permissible to deduce, from the pattern of distribution, that investment of capital was not a motive which partially accounts for the maintenance of a formal empire ? This is not an easy question. To say that the Empire turned out to be less attractive as a field for investment is one thing, and to say that it was never regarded as such and hence investment was not a motive is another.

First, neither businessmen nor policy-makers possessed the latter-day historians' hindsight. The fact that a certain course of action (let us say, an attempt to commit suicide) was not consummated (the would-be suicide, to continue the analogy, failed to kill himself) is not prima facie reason for treating the action as a non-event (or else no suicide would be penalised). The abstinence from investment exclusively within the Empire is not sufficient ground for maintaining that the one had nothing to do with the other. From historical data it is clear that investment opportunities outside the Empire proved increasingly more attractive: we need not attribute to the investors a supernatural foreknowledge of this. Even what was possible for them to know may not have been within the actual range of information of investors and empire-builders. The extent of information obviously conditions investment decisions. Incomplete information might lead to decisions—including long term strategies such as extension or maintenance of political dominion over countries supposedly ripe for investment, raw material exploitation etc.—which, in the light of fresh information might be altered. (Alteration might not, of course, be always feasible.) Even today the information in underdeveloped countries on items essential to the making of investment decisions is low and in the last century it was still lower so that the subjective element—daydreams about vast markets, so-called business "intuition", readiness to accept slogans raised by interested cliques, wishful thinking about lucrative opportunities—played an important role. Many of these expectations about the Asian possessions proved illusory and capital flowed elsewhere. But so long as the illusion lasted it added to the appetite for empire. Even if the realisation was growing that British capital could do without formal control over the area of operation, easy flow of capital to imperial possessions of other powers could not be taken for granted. To such colonial dependencies the flow of

capital from countries other than the metropolitan country was not unimpeded. Of new British portfolio investments abroad, only 1 per cent went to foreign dependencies (e.g. German Africa and Dutch Indies)[160] A formal empire was thus negatively of some importance. Finally, are we exaggerating the influence of Indo-British interest groups who commanded a small portion of British capital invested abroad? The influence of an interest group may be more than proportional to its investments, turn-over of business etc. Even if, out of the total foreign investments of the metropolitan country, only a small proportion is invested in a dependency or a colony, even if an infinitesimally small number of the total business community are concerned with the colony, the interest of such investors or businessmen in the policies of their government regarding the colony would not be any the less because the larger proportion of capitalists or businessmen have other interests in mind. Energetic efforts of a few interest groups should not be underestimated. The influence of British interest groups active in the Indian scene was not exactly correlated with the ratio of British investments in India to total British investments in the world nor did the policy-makers finely calibrate the interest groups' "weight" according to that ratio; yet this naive proposition is implicit in the argument that the smallness of the sums invested in imperial possessions like India proves that investment was not an important factor in the making of imperial policies.

The sector-wise breakdown of new British portfolio investments abroad in 1865-1914 indicate heavy concentration in transportation, public utilities and public works: social overhead capital accounted for 69 per cent of the total (including Railways: 41 per cent), extractive industries (agricultural and mining activities) for 12 per cent, and manufacturing for less than 4 per cent. "The emphasis", Simon concludes, "was thus placed on the development of those facilities which

increased the capacity of primary producing nations to export marketable surpluses to Europe".[161] Macpherson and Thorner, in their studies of railway investments in India, have shown that Manchester cotton interests eagerly backed railway development; expectation of raw material supply was an important consideration.[162] Manchester's anxiety to ensure raw cotton supply from India became particularly acute during the American Civil War. But even in the 'fifties the Cotton Supply Association was making strenuous efforts to develop raw cotton supply within the Empire so as to reduce Britain's dependence on supply from the United States. (The woeful state of information on India's potentials is incidentally revealed by the high expectations of those who agitated for government intervention, and their failure to take into account simple facts such as the technical qualities of the short-stapled Indian cotton : the agitation died off soon after the problems with Indian cotton became known and the supply from America was resumed in 1864-5.) The heavy emphasis placed by the first two Finance Members, Wilson and Laing, on India's role as a raw material supplier and the continuity of this policy have been mentioned above. Between 1860 and 1870 the exports (official value) of raw cotton increased two and a half times, that of raw jute six times, and export of hides three times. Raw materials for fabrics (cotton, jute, silk and wool) accounted for 28 per cent of total commodity exports in 1860-61 and more than 43 per cent in 1870-71.[163] Both the railway and roads construction policy and the tariff policy bear the imprint of the keen desire to develop raw material exports—which, on the balance, appears to have been stronger than the desire to find investment outlets. It does not seem that the policy-makers felt concerned about the pattern of British investment in India—the heavy concentration in export oriented plantation enterprises and extractive industries, and in railways—or the absence of stimulating

("linkage") effects of railway investment (a large part of the outlays took place in Britain itself on machinery)—and, given the neo-mercantilist views on complementary development within the empire, this was only to be expected. That British capital—and floating British-owned capital in India mobilised by Agency Houses—was "developing" India was, in the annual ritual exchanges between the Finance Member and the Chamber of Commerce representative in the Legislative Council on the budget day, a matter of mutual congratulation.

The government's role was supposed to be passive if possible, active when necessary—and it was rarely necessary. Britain's economic lead in the mid-nineteenth century was indisputable and intervention in aid of British financial and commercial interests was rarely needed. British policy in other parts of the world in the period before 1870 has been dubbed "the imperialism of Free Trade". The policy can be summed up as : business without the constable if possible, business and the constable if necessary (apologies to Carlyle). Or, as Gallagher and Robinson have formulated it : trade with informal control if possible ; trade with rule when necessary.[164] This qualified political interventionism abroad ran parallel to the policy in India which, for want of a better term, we have described as discriminatory interventionism. While the government maintained a non-intervention policy in some areas—e.g. delimitation of government expenditure in social overheads, avoidance of progressive redistributive taxation, denial of tariff protection to indigenous industries, non-interference in food-grains movement under cyclically recurring famine conditions, unwillingness to assume a positive role in the industrial sphere—in some other areas of activity the government deviated from the strait and narrow path of laissez faire—and subsidised or, 'guaranteed' private investments, altered land regulations to aid investment in plantations, provided extraordinary incentives for the production

of raw materials like cotton and biased investment in overheads and transport facilities in favour of raw material export. Most British interest groups—an important exception was the Cotton Supply Association—only wanted that the right kind of non-intervention should be practised, and nothing more than that, in the 1860's.

Outside the Empire in the post-1870 period the link between political intervention and commercial expansion has been a subject of much controversy. The reaction against the Hobsonian critique of imperialism ranges from unchallengeable commonplaces such as 'single value explanations will not do' to more aggressive stances (e.g. P. T. Bauer's view that the "allegedly exploitative nature of political colonialism" is widely accepted because intellectuals in developed countries who harbour "resentment of a society which does not give them the prominence and power they think they should have" exploit the readiness of underdeveloped countries to accept "the economics of resentment").[165] In historiography one result of this reaction has been a tendency to highlight the purely political as opposed to the economic factors in imperial history. It remains an open question whether Fieldhouse or Gallagher, Robinson and Denny, in interpreting the post-1870 struggle for empire in terms of the new diplomatic pattern in Europe and the pursuit of political security, have not underestimated the importance of commercial interests.[166] D.C.M. Platt's recent study (1968) suggests that financial and trade interests did play a significant role in British policy making: "The continuity in British foreign policy between 1815 and 1914 extended beyond conventional political diplomacy; it lay in the division of British policy into two main strands—the maintenance of national security, and the creation and preservation of fair and equal opportunities for British trade in the markets of the world."[167] These two factors are, it has been suggested, closely related because of the specialisation

which industralisation involves, the intensificaion of international division of labour, the dependence on resources not available within the industrialised country, and the consequent need to minimise the "risks of economic growth" by using political power to obtain access to raw materials and to markets.[168]

This brief survey, sketchy as it is, may serve as a backdrop for the subject we have placed in the foreground in this study. "Geographers in Africa maps", wrote Dean Swift, "draw elephants to fill the gaps." For historians of India too this convenient expedient has proved tempting. Some of the gaps in our knowledge are now becoming obvious with the progress made recently in the re-examination of the conventionally accepted version of nineteenth century economic history. To mention some well-known instances : it has been shown that the demographic data regarding de-industrialisation in the post-1881 period are shaky, the study of British investments overseas has totally altered old notions about flow of capital to the empire in the post-1871 period, the widely accepted view of the destruction of the traditional textile industry has been questioned, the pattern and significance of late nineteenth century investments in economic overheads as well as the interaction between foreign trade and the domestic economy are being re-examined.[169] The problems to which we have addressed ourselves sometimes led us marginally to touch upon questions such as these. To deal with all of them in depth was neither necessary nor possible. Some of the current controversies (e.g. the critique of the generally accepted view of the decline of the traditional indigenous industries) have been conducted on the deductive-hypothetical plane and they must be regarded as open questions awaiting empirical evidence. Needless to say, the present work does not purport to be a comprehensive economic history of India from 1858 to 1872.

Finally, a few foot-notes on our approach and method.

Our conclusions about the interaction between interest groups and decision-makers—the cross-pressures of aligned and competing groups, systemic constraints on the decision-makers, irrational elements and predispositions influencing the making of decisions, the uncertainties etc.—add up to a rather complex picture. Will it be correct to argue that each decision was uniquely determined and, therefore, to talk of a policy pattern is to force facts into the 'procrustean bed'—a cliche much favoured by the critics of 'determinism'—of 'preconceived notions'? Much specious argument is possible on these lines: *tariff concessions to Manchester interests would not have been* made *if*, let us say, Tsarist Russia had been more aggressive and financial costs of protecting the Indian empire larger; there would have been no Income Tax *if* instead of James Wilson of the London *Economist* Bartle Frere of the I.C.S. (the officiating Finance Member after Wilson's death) had been appointed Finance Member, for Frere was unfamiliar with and generally averse to such innovations; military retrenchment to relieve Indian finance would have been effected *if* a lesser personality than Napier of Magdala (who happened to be the Commander-in-chief when retrenchment was proposed) had been pitted against Mayo at a time when the memory of the Mutiny was still fresh; had there been no Civil War in America there would have been no pressure in Britain to develop raw cotton supply from India—and so on. It is futile to discuss such historical 'if's. It is possible to argue that had Manchester been unable to exact from the Indian government tariff concessions it is not improbable that countervailing excise duties on Indian manufactures would have been imposed and Wood did, indeed, propose such duties as early as 1862; that even before Wilson arrived with his Income Tax scheme other less sophisticated forms of direct taxation of business and professional income were being experimented with; that even if the India Office treated the Mutiny as a

non-event and Napier as a nonentity, it is inconceivable that India would have been relieved of the military burden which grew with Britain's extra-Indian commitments demanding a large military base in India; that Manchester's efforts to develop raw material supply within the empire commenced long before the beginning of the American Civil War.[170] To multiply instances is a pointless exercise. In the game played by the pressure groups—unlike the Dodo's race which allowed every to win—some won and some lost: while the exact shape and timing of each decision (involving gain for some and loss for others) was not predictable, there was a bias which made some outcomes of the decision-making process more probable than others. Each piece of the jigsaw puzzle is irregularly shaped but they collectively build up a pattern.

In the following chapters we have avoided using, as far as possible, technical terms currently used by some political scientists and historians who have studied decision-making processes. There did not seem to be any reason why the emergence of a decision (let us say, for instance, the decision not to extend the Permanent Settlement, vide pp. 152-72) should not be presented in a straightforward historical account unburdened by what may be unfamiliar jargon to many readers. Moreover, much of the trivia appertaining to a blow-by-blow narrative of the mechanics of decision-making seemed dispensable. The analysis of decision-making has its uses, but this was not the only aim of this enquiry. Chapter II provides the formal framework and in this introductory chapter we have tried to indicate factors outside the formal-legal structure influencing decisions. A more extensive study of these factors—in particular the role of interest groups in India and in England—will possibly lead to a deeper understanding of the working of the imperial system of government, the conflicting interest constellations, and the stability of a foreign Raj.

It is perhaps unnecessary to add that, as Mannheim put it, "none of us stands in a supra-temporal vacuum of disembodied truths".[171] It is not easy for an Indian to overcome a certain 'gap in empathy' when he tries to understand the sentiments and attitudes of the aliens who ruled India. It is no easier to exclude the subjective element in his judgement when considering issues which vitally concerned the people of India. To pretend to be totally free of these possible limitations on one's objectivity is useless. But it should be possible for the reader to judge whether or not the argument is defensible in terms of the disciplined use of objective evidence. Many of the new questions raised here seem to be of general relevance to the study of the political economy (we use this rather archaic term deliberately) of the Indian empire. Some of them cannot yet be answered conclusively. It is hoped that the present work would help focus attention on these questions.

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1 Charles Lamb probably scribbled this 'review', about five years before his retirement from the service of the East India Company, on the fly-leaf of Booth's *Tables of Simple Interest* (London, 1818), MSS Eur C. 128, I.O.L., quoted by S. C. Sutton *India Office Library* (London, 1967) p. 19.

2 Fin. Progs. Dec. 1860, no. 2, Minute by Charles Trevelyan, 12 May 1860.

3 See for instance letters from Charles Trevelyan to Charles Wood, 12 Oct. 1864, Trevelyan Papers, Letter book vol. 44 (Trevelyan hotly denies that he was hostile to the "planting interests"); from Argyll to Mayo, 12 Feb. 1869, Mayo Papers, bundle 47, no. 7 (Argyll advises Mayo to keep the Indian government's state railway scheme "very private at present"—these words are

heavily underlined—so as not to alarm railway interests); from Mayo to Argyll, 9 Nov. 1870, Mayo Papers, bundle 41, no. 300 (Mayo on the European business community in India). Such explicit references to business interests (and other ones cited later) are to be found oftener in the private correspondence of the Secretaries of State, Governor-Generals, and Finance Members than in the official communications. One reason, among others, for this caution was the need to conceal from the public view some frank expressions of opinion; one wonders what would have been the reaction of their compatriots if they knew of, let us say, Mayo's scorn ("They come here to get as much money out of the Blacks as they can", wrote Mayo of the non-official Europeans in India) or Trevelyan's peevishness ("I shall be obliged to the Chamber of Commerce at Manchester to tell me what more we could have done.") Mayo to Argyll, 9 Nov. 1870, loc. cit.; Trevelyan to Wood, 23 May 1863, Trevelyan Papers, Letter book vol. 42.

4 We are here interested only in a serviceable set of tools and there is no need to enter into the semantic disputes theorists revel in. Empirical work on pressure groups or interest groups has been confined almost exclusively to western political systems—and the theory so derived may not be relevant to the study of non-selfgoverning, non-democratic, Asian countries. H. W Ehrmann (Ed) *Interest Groups on Four Continents* (Pittsburgh, 1958) provides an interesting comparative view, and David B. Truman *The Governmental Process* (New York, 1951) a survey of developments since the publication of A. F. Bentley's *The Process of Government* (Chicago, 1908); also see Harry Eckstein *Pressure Group Politics* (Stanford, 1960). It will be pointless, indeed impossible, to itemise the recent works on the role of pressure groups and on governmental decision systems which throw light on modern, and in particular, contemporary history. The plethora of articles on decision making in foreign policy alone (since the publication of R. C. Snyder, H. W. Bruck, & B. Sapin 'Decision making as an approach to the study of international politics' in 1954: vide *Foreign Policy Decision Making*, Free Press of Glencoe, 1962) would need a substantial bibliography; some of these are of great interest to historians (e g. R. J. C. Butow *Japan's Decision to Surrender*, Stanford, 1965). We have used the term 'pressure group'; many English authors seem to prefer the term 'lobby'. That new

additions have recently been made to the historians' vocabulary does not, of course, mean that these phenomena and processes have not received their attention before.

5 We have not used any ready-made typological scheme. Our data, put in an intelligible order, seem to suggest that there were certain distinct types of 'pressure groups.

6 Home Rev. Progs. Sept. 6, 1860, no, 15 (Persian Dept) Petition from inhabitants of Neriad Zillah, Kaira, 15 June 1860. *ibid* April, 1867, no. 7, Memorials of inhabitants of Calcutta; vide p. 158 *infra* (Bombay Petition).

7 *Bengal Directory* (Calcutta, 1858), 'Bengal Chamber of Commerce'; Tyson's history of the Bengal Chamber of Commerce, despite its studied reticence and eulogistic tone, contains a great deal of interesting information: this is also true of the commissioned historical accounts published by the Bombay and Karachi Chambers of Commerce.

8 Home Rev. Progs. Apr. 1867, no. 20, Petition from the Master, Committee and Members of Calcutta Trades Association to Secretary of State, 22 April 1867. *ibid* March 1867, no. 35, Petition to Viceroy, 15 Mar. 1867.

9 *P.P.H.L.* 1863, vol 22. cd. 87, pp. 160-62, Memorial from Landholders' and Commercial Association, 31 May 1861; from Indigo Planters' Association, 20 Nov. 1860; Coffee Planters of Coorg, 25 June 1862; Directors of Soorsipore Tea Co. Cachar, 6 Feb. 1861.

10 Memorials from the Cotton Supply Association to East India Court of Directors in 1857; to the Secretary of State, on 26 July 1859; to the Govt. of India on 3 Apr. 1860: Isaac Watts *The Origin and Progress of Cotton Supply Association* (Manchester, mdccclxxi) pp 119, 125, 131; this work, containing a valuable collection of documents, is referred to hereafter as Watts.

11 On some of the activities of the Cotton Supply Association vide S. Bhattacharyya 'Laissez faire in India' *Indian Economic and Social History Review*, Jan. 1965, pp. 1-22.

12 *Reformer* 14 Nov. 1937; quoted by B. B. Majumdar *Indian Political Associations and Reform of Legislature 1818-1917* (Calcutta, 1965) p 24.

13 James Routledge *British Rule and Native Opinion in India* (London, 1878) pp. 219-20.

14 *Vide* p. 207 *infra.*

15 Surendranath Banerjea *A Nation in Making* (London, 1925) p. 40.
16 *vide* p. 206 *infra.*
17 Fin. Progs. June 1861 Accts. no. 61, Members of British Indian Association, Calcutta, to Governor-General, 5 June 1861.
18 *Hindoo Patriot* 5, 12 and 19 June 1871 on Road Cess Bill ; *ibid* 6 Feb. 1871, 23 Jan 1871, 10 July 1871 on the education and road cesses on zamindars.
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20 *Journal of the East India Association*, vol. I, no. 1, 1867.
21 *vide* pp. 28, 73, 241 *infra.*
22 *vide* pp. 133, 255 *infra.*
23 *vide* p. 156 *infra ;* Petition of the Bombay branch of the East India Association, *Journal of the E. I. A.* vol V, part II, 1871, pp. 130-32.
24 p. 121 *infra.*
25 P.P.H C. 1871, vol. 8, cd. 363, App. p. 511, Representation from Bombay Association and native inhabitants of Bombay Presidency (1871). On local taxes see p. 86 *infra ;* B. B. Majumdar *op. cit.* pp. 68-73. Anil Seal *The Emergence of Indian nationalism* (Cambridge, 1968) pp. 229-31
26 D. Naoroji *Speeches and writings of Dadabhai Naoroji* (Madras, 1908) p. 172, Appendix D, 'Statement to the Select Committee on East India Finance, 1871'
27 J. Dickinson (1815-76) published *Cotton and Roads in Western India* (1851), *Dhar not Restored* (1864), *Government of India under a Bureaucracy* (1853) etc.; known for having advocated clemency after the Mutiny and for his pro-Indian sympathy
28 *vide* pp. 245-46 *infra.*
29 Memorial from the Cotton Supply Association to the Indian Government, 3 Apr. 1860, Watts *op. cit.* p. 131. Home Rev Progs. 6 July 1861, no 7, Secy. C S A to Secy., Govt. of India, 15 May 1861 *ibid.* 9 Dec. 1861, no 2, same to same, 3 Sept. 1861.
30 pp. 121 and 240 *infra* Fin. Progs. July 1868, S.R. no. 14, the Humble Memorial of British Indian Association meeting in Calcutta to Secretary of State, 31 May 1869.
31 vide p. 193 *infra.* Home S R. March 1861, no. 6, H. W. J. Wood, Secy. of Bengal Chamber of Commerce to Secy. Govt. of India, 23 Feb 1861 ; no. 7, Messrs Brandram Bros. and 41 other firms of London to C. Wood, 15 Dec. 1860; no. 7(a),

G. MacMicking, Chairman, E.I. Association, to C. Wood, 14 Dec. 1860. Home S.R. Apr. 1862, no. 25, Secy., Bombay Chamber of Commerce, to Commissioner of Customs, 21 May 1861. *Ibid.* letter from Secy., Karachi Chamber of Commerce. *Ibid* Apr. 1862 no 28, Chairman, Madras Chamber of Commerce to Secy., Brd. of Revenue, Fort St George, 8 May 1861 ; ibid no. 42. Secretary, Madras Chamber of Commerce to Secretary, Govt. of India, 28 Jan. 1862 ; *ibid* no. 45. Secretary, Madras Chamber of Commerce, to Secretary, Govt. of India, 9 Apr. 1862. *Ibid* 20 Dec. 1862, no. 8, Petition of merchants and manufacturers of saltpetre in Sind to Governor of Bombay, May 1862. *ibid.* 5 Mar. 1861, no. 8, Messrs Schoene, Kilburn & Co, and 4 other firms of Calcutta to Secy., Govt. of India, 1 March 1861.

32 The deputation to the Secretariat was organised by H. W. J. Wood, Secretary, Bengal Chamber of Commerce, in August, 1860 ; Home S.R Progs. 1 Oct. 1860, Secy., Bengal Chamber of Commerce, to Secy, Govt. of India, 27 Aug. 1860. Home S.R. Progs. 27 July 1860, no. 26, W. H. Crake, Chairman, Madras Chamber of Commerce, to Secy , Govt. of Fort St George, 30 June 1860 ; *ibid* no. 10, Secy , Govt. of Bombay, to Secy., Govt. of India, 14 may 1860 Also Home S R. Progs. 1 Oct. 1860, nos. 1, 2 & 6 on inclusion of Chamber of Commerce representatives in tariff committee. Madras and Bombay Chambers sent no representative ; they nominated Bullen of Bengal Chamber of Commerce as their representative and Bullen was appointed by the government a member of the tariff committee

33 *Annual Report of the Cotton Supply Association,* no. 5, 23 Sept. 1862. *Ibid,* no. 2, 1859. Watts *op. cit.* p. 119 *et seq.*

34 *vide* pp. 207-8 *infra* Home Rev. Progs 20 Oct. 1860, no. 42, Secy., Govt. of Bengal to Secy., Govt. of India, 2 Oct. 1860.

35 B. B. Majumdar *op cit* p 37 A. Seal *op. cit.* p. 204. The *Cotton Supply Reporter* carried a banner at the top of each issue · 'Cotton Knows No Politics'. Politicking was one of its main functions. It was the propaganda organ of the raw cotton dealers and cotton manufacturers of Manchester who had joined the Cotton Supply Association in large numbers during the Lancashire 'cotton famine'

36 Speeches in House of Commons by Col Sykes (29 June 1865), Kinnaird (27 July 1868), R. N. Fowler (3 Aug. 1869, 5 Aug. 1870), Sir W Lawson (3 Aug. 1869), Stephen Cave (24 Feb.

1871), *Financial Statements....reprinted from Hansard's Parliamentary Debates* (Calcutta, 1872) pp. 634, 790, 794, 868, 886, 956, 969, 990, 997.

37 Mayo to B. Disraeli 9 May 1871, Mayo Papers, bundle 43, no. 100; Mayo to S. Northcote, 16 Nov. 1870, Mayo Papers, bundle 41, no. 315.

38 Argyll to Mayo, 16 Dec. 1870, Mayo Papers, bundle 48, no. 34.

39 R. Temple to O. T. Burne, 25 July 1871, Mayo Papers, bundle 61 (unnumbered).

40 *vide* pp. 237, 256 *infra*. D.N.B., XVIII, p. 252. Henry Hyndman *The records of an adventurous life* (London, 1911) pp. 169, 174-75.

41 D. Naoroji *op. cit.* Appendix D, 'Statement to the Select Committee on East India Finance, 1871', p. 173.

42 Home S R. Progs Sept. 1860, Resolution by Governor-General in Council, 29 Sept. 1860. Bullen was the President of Bengal Chamber of Commerce. Home S.R. Progs. no. 6, Secy., Chamber of Commerce, to Secy, Govt. of India, 24 Sept. 1860.

43 Home Rev Progs. Sept 23, 1860, no. 39, Resolution by Governor-General in Council. *Ibid* Oct. 20, 1860, no. 35 Report of the Committee.

44 Fin. Progs Jan 1867, Report of Committee on Customs Tariff to Financial Secretary, Govt. of India, 7 Jan 1867.

45 *vide* pp. 238-43 *infra*.

46 Home S.R. Progs. 7 July 1860, no. 7, A. Eden. Brd. of Revenue to Secy., Govt. of Bengal, 10 March 1860.

47 *loc. cit.*

48 Charles Trevelyan to Charles Wood, 13 June 1860, Trevelyan Papers.

49 Charles Trevelyan to Charles Wood, 4 March 1863, Trevelyan Papers.

50 Trevelyan to Wood, 12 Oct. 1864, Trevelyan Papers.

51 vide *Friend of India* 14 Apr. 1864, 22 Sept. 1864, 6 Apr. 1865, 18 May 1865.

52 Fin. Progs. Apr. 1865, S.R. no. 35, Memorial from Bengal Chamber of Commerce to Govt. of India. 10 Apr. 1865. *Ibid* June 1865, no. 244, Financial Secretary, Govt. of India, to Collector of Customs, 21 June 1865. Secretary of State to Govt. of India, Fin. Desp. no. 114, 9 May 1865.

53 *infra* p. 94 *et seq.*

54 Mayo to W. Arbuthnot, 10 Jan. 1870, Mayo Papers, bundle 35 no. 17

55 Mayo to Argyll, 17 Oct. 1869, Mayo Papers, bundle 37, no. 285.

56 Mayo to Argyll, 17 Jan. 1870, Mayo Papers, bundle 35, no. 20.

57 *loc. cit.*

58 pp. 128-29 *infra.*

59 Argyll to Mayo, 11 Apr. 1871, Mayo Papers, bundle 49, no. 5.

60 Secretary of State to Govt. of India, 10 Feb. 1871, Fin Desp. no. 52

61 p. 149 *infra.*

62 Mayo to Argyll, 9 Nov. 1870, Mayo Papers, bundle, 41, no. 300.

63 Blair B. Kling *The Blue Mutiny: Indigo Disturbances in Bengal 1859-62* (Philadelphia, 1966) ch. IV passim.

64 Ravinder Kumar 'The Deccan Riots of 1875' *Journal of Asian Studies,* XXIV, no. 4, Aug 1965, pp. 613-35.

65 B. Kling *op. cit.* pp. 97-8.

66 R. Kumar *loc. cit.*

67 On the Cotton Supply Association and land regulations see pp. 163-65 *infra;* on import duty on jute manufactures, p. 194 infra; on guaranteed railways, p 105 et seq. *infra* and D. Thorner *Investment in Empire* (Philadelphia, 1950) pp. 119-167; on import duty on cotton manufactures pp. 187--88 *infra* and A Redford *Manchester Merchants and Foreign Trade* (Manchester, 1956) p. 25 *et seq.*

68 A meeting was organised by the Bengal Chamber of Commerce to protest against the high tariff rates and possibly the resentment in the British community against Canning's policy of 'clemency' also helped the merchants to draw the general public to the meeting. Home (Public) Consultations, 15 Apr 1859, no. 10, Calcutta Petition dated 5 Apr. 1859. Wilson's tariff policy is discussed later in this chapter.

69 Home S. R. Progs. 1 Oct. 1860, H. W. J. Wood Secy., Bengal Chamber of Commerce, to Secy., Govt of India, 27 Aug 1860. The Manchester memorial was communicated to the Govt. of India, Home S.R. Progs. 7 July 1860, no. 14, Secretary of State to Govt. of India, 17 May 1860. Home S.R. Progs 27 July 1860, no. 26, W. K. Crake, Chairman, Madras Chamber of Commerce, to Secy., Govt. of Fort St George, 30 June 1860 *Ibid* no. 10, Secretary, Govt. of Bombay to Secretary, Govt. of India, 14 May 1860.

70 Home S.R. Progs. Mar. 1861, no. 6, H. W. J. Wood Secy.,

Bengal Chamber of Commerce, to Secy., Govt. of India, 23 Feb. 1861. *vide* p. 193 *infra.*

71 Fin. Progs. S R. April 1865, no. 35, Memorial from Bengal Chamber of Commerce to Governor-General, 10 Apr. 1865. Secretary of State to Govt. of India, Fin. Desp. no. 114, 9 May 1865. Fin. Progs. S.R. June 1865, no. 244, Fin. Secy., Govt. of India to Governments of Bengal, Madras, Bombay and British Burma, 21 June 1865. *vide* pp. 191-92 *infra.*

72 Fin. Progs. Mar. 1866, no. 77, Secy Bengal Chamber of Commerce to Secy., Govt. of India, 26 Feb. 1866.

73 Fin Progs. S.R. No. 73, Secy., Bengal Chamber of Commerce to Secy., Bengal Government, 21 Nov. 1867. The Bombay Chamber supported the Bengal Chamber claiming that gap between tariff values and market prices was wide; it was, indeed, likely that since the end of the American Civil War prices had fallen and the Chambers of Commerce had substantial grounds for complaint. Fin progs. S. R. Feb. 1868, no. 76, Secy, Bombay Chamber of Commerce, to Secy., Govt. of Bombay, 22 Oct. 1867. The Committee appointed in February 1868 reported in April that for the time being the difference between market price and tariff values were slight and revaluation should be postponed (Fin. Progs. S. R. February 1868 no. 90 and April 1868 no 29). In March 1869 tariff valuation was revised and the Govt. of India expected that "Trade would respond to the concession...so as, to some extent, to reduce the financial sacrifice made....." (Govt. of India to Secretary of State, Fin. Desp. 240, 20 Sept. 1869)

74 *vide* pp. 194-95 *infra*

75 Home Rev Progs. Apr. 1867, no. 7, Secy., Bengal Chamber of Commerce, to Secy., Home Dept., 22 March 1867; p. 213 *infra,*

76 B. Frere 'The means of ascertaining public opinion in India' *Journal of E.I.A* 1871, vol. V, part IV, pp. 102-72. Mayo to W. Arbuthnot, 15 Mar. 1871, Mayo Papers, bundle 42, no. 68. Fin. Progs Apr. 1868, no. 48, Secy, Board or Revenue, to Chief Secy, Fort St George, 27 Jan 1868.

77 Trevelyan remarked that the government's power of further taxation depended upon the government's "reputation for good faith" and, therefore, urged the abolition of Income Tax which was originally conceived as a short term emergency measure. Trevelyan to Elgin, 11 April 1863, Elgin Papers, I, part 2, vol. 23.

78 Wood suggested reduction of duties on manufactures imported into India, a countervailing excise duty on cotton spinning factories, and he also toyed with the idea of an excise duty on Indian cotton goods C. Wood to Elgin, 3 March 1862, Wood Papers, 10, f. 62; same to same, 25 June 1862, *ibid*, f. 310; Wood to Frere, 2 Apr. 1863, *ibid*, 12, f. 170. He seems to have favoured the special duty on cotton spinning factories as the best means of satisfying the interests affected by the Indian import duties.

79 C. Trevelyan to C. Wood, 23 May 1863, Trevelyan Papers.

80 pp. 168-69 *infra*.

81 pp. 204-6 *infra* Wilson's private correspondence was published seventy years after his death by his daughter, E. I. Barrington *The Servant of All* (London, 1927); vide letters from Canning to Wilson, 31 Jan 1860, 10 Feb. 1860, 18 Mar. 1860, Barrington *op, cit*, II, pp. 223-4, 225-7, 274-5.

82 pp. 97-101 *infra*.

83 Argyll to Mayo, 4 Nov. 1869, Mayo Papers, bundle 47.

84 Fin. Progs Accts Feb 1868, no. 57, Minute by Governor-General 20 Jan 1868 Mayo to H Durand, 24 Apr. 1870, Mayo Papers, bundle 39, no. 105.

85 Fin. Progs. Accts. Feb. 1868, no. 57, Governor-General's Minute, 20 Jan. 1868. Mayo to Argyll. 6 Apr. 1870, Mayo Papers, bundle 39, no. 100.

86 pp. 60, 64 *infra*.

87 Mayo to Argyll, 9 Nov. 1870, *ibid*. bundle 41, no. 300.

88 Elgin to C Wood, 14 May 1862, Elgin Papers, Sec. 1, Part 1, Letter book vol I, f 13; cited by Gopal *op. cit*. p. 53.

89 This was how Salisbury described a typical Foreign Office Under-Secretary's attitude to traders; Lady Gwendolen Cecil *Life of Robert, Marquis of Salisbury* (London, 1931), III, p. 216, quoted by D. C. M Platt *Finance, Trade and Politics: British Foreign Policy* 1815-1914 (Oxford, 1968), p. xx. Platt provides interesting insights into the social composition of the bureaucracy in relation to policy-making.

90 Kar Marx *Capital* (Dona Torr's ed. 1946) vol. I, p. 213.

91 A. K. Cairncross *Home and Foreign Investment 1870-1913* (Cambridge, 1953), p. 244: Cairncross finds that Wilson's "monetary theory has a modern ring". Schumpeter only incidentally mentions Wilson as "one of those excellent men who fare badly in a history of analysis." J. A. Schumpeter *History of Economic*

Analysis (London, 1961) p. 726. Robert Link's *English Theories of Economic Fluctuation* 1815-1848 (New York, 1959) contains a detailed analysis of Wilson's basic economic ideas. See also Elmer Wood *English Theories of Central Banking 1819-1858* (Cambridge, Mass. 1939).

92 W. Bagehot 'Memoir of the Right Hon. James Wilson' (1860) Mrs. Russell Barrington *The Works and Life of Walter Bagehot* (London, 1915), vol. III p. 213.

93 Sir Edward West's career in India is virtually unknown. Ricardo acknowledged in the preface to the *Principles* West's contribution to the 'true doctrine of rent'. vide *D.N.B.*, LX, p. 329, and Schumpeter *op. cit.* p. 586.

94 *The Economist* 7 April 1860.

95 Richard Temple *Men and Events of My Time in India* (London, 1882) quoted by E. I. Barrington in *The Works and Life of Walter Bagehot* (London, 1915), vol. X, p. 337.

96 C. Trevelyan to T. Pycroft, 25 Feb. 1860, Trevelyan Papers.

97 I am much indebted to Schumpeter's brilliant exposition on the economic ideas of this period—in particular the principles of Gladstonian finance. Schumpeter *op. cit* pp. 402-5.

98 p. 57, 132 *infra.*

99 p. 187 *infra.*

100 p. 187 *infra.*

101 p. 205 *infra.*

102 Argyll to Mayo, 4 Nov. 1869, Mayo Papers, bundle 47.

103 The military expenditure policy is discussed below Ch. III, Sec. I and II.

104 *Report on the Working of Indian Railways* (*1875*) p. 15; the estimate of Indian shareholdings is possibly a very rough estimate though the source is exalted : Argyll observed that Indians held 1/80th of railway investments in 1869, in a letter to Mayo. 12 Feb. 1869, Mayo Papers, bundle 47, no. 7.

105 Memorial by Cotton Supply Association to Charles Wood, 26 July 1859, Watts *op. cit.* p 125. The irrigation company, in excavating a canal from Toongabhadra river, exhausted its capital and from 1866 became dependent on government loans. The other one, the East India Irrigation Co., was similarly dependent on loans given by the government from time to time until the company was taken over by the government (1868). The latter was not a guaranteed enterprise. *M.M.P.R.*, 1873-74, p. 62 George Chesney *Indian Polity* (London, 1868) pp. 411-12.

106 Rev. Progs 28 Feb. 1861, no. 26, Resolution by Governor-General in Council, 28 Feb. 1861

107 Fin. Progs. July 1871, no. 83, Govt. of India to Secretary of State, no. 40, 6 Apr 1870.

108 According to H. A. Antrobus the government intended to prove "that tea could be produced as a marketable commodity, then to leave it to private enterprise to produce it on commercial scale." *A History of the Assam Company* (Edinburgh, 1957).

109 M G. Ranade *Iron Industry—Pioneer Attempts* (1892) ; S. K. Sen *Studies in Industrial Policy and Development* (Calcutta, 1964) pp. 104-113.

110 *vide* p 17 *infra.*

111 J. Wilson to W Bagehot, 4 July 1860, E. Barrington *The Servant of All* (London, 1927), vol. II, p. 252.

112 Memorial from Cotton Supply Association to East India Court of Directors in 1857, Watts *op. cit.* p. 119 ; to Sir Charles Wood, 26 July 1859, *ibid* p. 125 ; to Govt. of India, 3 Apr. 1860, *ibid.* p 131.

113 Secretary of State to Govt. of India, Fin. Desp. no. 115, 16 July 1863.

114 vide p. 268 *infra.*

115 Wilson's budget statement, L. C. Progs (old series) vol VI, 1860 ; Trevelyan's statement, L.C A.Progs. (new series) 1863, vol II, p 82 ; Home S R Progs 31 Mar 1862, no. 7, W. S. Fitzwilliam, President, Bengal Chamber of Commerce, to Governor-General in Council, 27 Mar. 1862.

116 *Manchester Guardian* 1 Feb. 1861 ; report on a conference on Indian affairs convened by the Manchester Chamber of Commerce at which a resolution was adopted condemning the Indian import duty on manufactured cotton goods.

117 H. Merivale (1806-74) was the Professor of Political Economy at Cambridge (1837-46), a permanent under-secretary for colonies (from 1848) and the author of *Lectures on Colonization* (1841) ; he was transferred to India Office in 1859 ; he was far less influential than Wakefield (1796-1862) the author of many pamphlets and a leader of the colonization movement

118 Rev Progs June 1964, no 23, G. M. Batten, Secy, Sudder Board of Revenue, N.W P, to Secy., Govt. of N.W P.. 16 Mar. 1864.

119 Rev Progs, 1 Dec 1863, no. 2.

120 C. Trevelyan to Wood, 4 March (1863) Trevelyan Papers.

used a later edition of London, 1938). A. K Cairncross *Home and Foreign Investment 1870-1913* (Cambridge, 1958). H. Segal & M. Simon 'British Foreign Capital Issues, 1865-94' *J. Ec. H.*, Dec. 1961, pp. 567-81. M. Simon 'The pattern of new British portfolio foreign investment 1865-1914' Ed. A R. Hall *The Export of Capital from Britain 1870-1914* (London, 1968) pp. 15-44. Also, R. Nurkse *Patterns of Trade and Development* (Stockholm, 1959) ; and an interesting if not strictly relevent contribution in the old tradition of historiography, R. Pares 'Economic factors in the history of the Empire' *The historian's business and other essays* (Oxford, 1961).

156 M. Simon *op. cit.* pp. 28-30.

157 Jenks *op. cit. pp* 207, 225.

158 A. R. Hall, Ed., *The Export of Capital from Britain 1870-1914* (London, 1968) p. 13.

159 G. Paish, *op. cit.* (1911).

160 M Simon *op. cit.* pp. 23-25.

161 *ibid.* p. 26

162 W. J. Macpherson 'Investment in Indian Railways 1845-1875' *Ec. H. R*, VIII, N.S., 1955, pp. 177-86. Daniel Thorner *Investment in Empire. British Railway and Steam Shipping Enterprise in India 1825-49* (Philadelphia, 1950)

163 vide Appendix.

164 J Gallagher & R. E. Robinson 'The Imperialism of Free Trade' *Ec. H. R*, VI, no. 1, 1953 Noteworthy among recent contributions on the subject are P. Harnetty 'Imperialism and Free Trade Lancashire and the Indian Cotton Duties 1859-62' *Ec. H. R*, vol. XVIII, N.S, 1965-66; and A. E. Moore 'Imperialism and Free Trade Policy in India 1853-54' *Ec. H. R.*, XVII, N S, 1964-65.

165 P. T. Bauer 'The economics of resentment : colonialism and underdevelopment' *Journal of Contemporary History*, vol. IV, no. 1, Jan. 1969, pp. 51-72.

166 D. K. Fieldhouse "'Imperialism' : an historiographical revision" *Ec. H. R*, vol. XIV, N.S., no 2, 1961, pp. 187-209; *The Theory of Capitalist Imperialism* (London, 1967), pp xiii-xix, 187-94. R. E. Robinson, J. A. Gallagher & A. Denny *Africa and the Victorians* (London, 1961) pp. 462 et seq.

167 D. C. M. Platt *Finance, Trade and Politics in British Foreign Policy 1815-1914* (Oxford, 1968) p. 367.

168 Simon Kuznets *Economic Growth and Structure* (London, 1966) pp. 50-51. Kuznets argues that there are some 'compulsive factors' which account for the expansive and aggressive tendencies displayed by certain countries which underwent rapid economic growth. Among others "The basic one is, of course, that extension of the area over which economic resources of a given country can be used, in proper combination with outside resources, natural or other, is likely to result in a greater per unit product and reduce the risks involved in economic growth. Economic growth is a risky process; for the individual firm it may mean commitments difficult to achieve and for a country it may involve specialization and the need for resources not available within its own boundaries The leaders of a rapidly growing country may try to minimize such risks by using the power of the state to assure access either to raw materials or to markets outside its boundaries." Kuznets' observations, made in an essay on the theory of economic growth, are, of course, in general terms. Specifically with reference to Britain Platt remarks : "National security was always the prime function of foreign policy, but access to markets and fair treatment in those markets was, for Britain especially, an interest only just subordinate—and closely related—to the safegaurding of our national and imperial frontiers." Platt *loc cit.* This is a point often missed by those who view the 'political factors' in isolation On the other hand, to explain a complex phenomenon such as imperial expansion wholly and solely in terms of the need for markets, raw materials, opportunity for investment etc. is an equally futile exercise

169 Daniel & Alice Thorner 'De-industrialization in India 1881-1931' *Land and Labour in India* (Bombay, 1962). M. D. Morris 'Toward a reinterpretation of nineteenth century Indian economic history' *J. Ec. H.*, 23 (1963), pp. 606-18. K. N. Chaudhuri 'India's international economy in the nineteenth century: an historical survey' *Modern Asian Studies*, II, 1 (1968), pp. 31-50. M. K. Thavaraj 'Public Investment in India 1898-1914' *Ind. Econ Review*, II, 4 (1955). Dr. Elizabeth Whitcombe's study, yet to be published, is likely to throw new light on irrigation development in the late nineteenth century in northern India. A Ghose and K. Mukherji's works on price movements in the late nineteenth century have been referred to elsewhere in this book.

170 Charles Wood proposed a tax on cotton spinning factories and an excise duty on cotton goods produced in India in his letters to Elgin (25 June 1862, Wood Papers, 10, f. 310) and to Frere (2 April 1863, Wood Papers, 12, f. 170); countervailing duties were eventually enacted in 1895 when it was evident that the government could not afford to reduce or abolish the import duty on Manchester goods; we should note that the excise duty was limited to those (medium) counts which competed with Manchester products On direct taxes see pp. 202-3 *infra* and J. P. Neogi *op cit.;* on military expenditure pp. 99-104 infra; *Vide* Robinson, Gallagher and Denny *op. cit.* p. 13, on the advantages of maintaining British troops in India without any obligation always "to foot the whole bill." Isaac Watts *The Origin and Progress of the Cotton Supply Association* (Manchester, 1871) narrates the efforts of Manchester dealers and millowners to develop sources of raw cotton supply within the empire with a view to reducing dependence on supply from the U.S.A.; *vide* p. 164 *infra.*

171 Karl Mannheim *Essays on the Sociology of Knowledge,* Ed. P. Kecskemeti (London, 1952) p. 148. Mannheim, of course, believed that it is possible for the intellectual to emancipate himself from ideological delusions and that genuine knowledge of historical and social processes is attainable—Schumpeter somewhere calls this 'the Mannheim fire escape'. On what has been called the problem of 'social apperception' see Oskar Lange *Political Economy* (Warsaw, 1963), Chapter VII.

CHAPTER ONE

TOWARDS "ECONOMICAL EFFICIENCY"

It is not easy to write about the finances of the Indian empire. So much has been written about the policies of the government that ruled over the Indian empire : another attempt may be regarded supererogatory. And yet it cannot escape the careful student of the vast and ever-growing literature on the subject that there remain certain lacunae ; the marginal returns may be diminishing from certain over-cultivated areas of study but there remain areas virtually unexplored. It is understandable why the history of public finance in British India did not get its due share of attention. To pursue the course of financial policies connectedly through a myriad of discrete pieces of administrative decisions and actions—premised on political and economic ideas not always made explicit—is a demanding task. Few wanted to play the game. Moreover, large chunks of the jigsaw puzzle were, to use an Anglo-Indian officialese, "found missing." Much of the data now available in the archives and most of the private papers of men in important decision-making positions were not accessible till recently. The infrequent and sometimes misleading public statements of these men and the rather exiguous quantitative data on the bare bones of Indian finance, provided a slender basis which satisfied only the polemicists and the bureaucrats—

people concerned more with the image than the pursuit of reality. Blind rejection or bland acceptance were attitudes which coexisted, though not peacefully, in the haze of imperfect knowledge sometimes compounded by self-deception. Just as audience reaction has and may continue to have a dangerous influence on the critics and defenders of the empire and its financial system, the much vaunted 'objectivity' of the academics may fall prey to another danger. It is dangerously easy to be obscure in this area of study. If historical experience does not conform to a simple and coherent pattern, if the complexity of empirical data seems to be forbidding and frustrating, one may fall back on the hypothesis that the course of events can be viewed only as a random process of confusion and muddle, punctuated by accidents, and occasionally mitigated by serendipity or the genius of some 'great men'. It follows from this view that the historian's search for a pattern is in itself a dereliction of duty. This view has a rather dubious appeal and we shall have to examine it later on, when we encounter questions which it leaves unanswered or simply unasked.

These varied responses to the problem of interpreting British financial policies in India could be noticed a hundred years ago. Problems of public finance captured public attention in the decade after the Mutiny as never before. The financial consequences of the Mutiny were probably as important as the political and administrative ones, The Mutiny precipitated a financial crisis. The annual expenditure for the army, military police, new levies, police and military public works went up from Rs. 13.2 crores (1856-57), to Rs. 17.2 crores (1857-58) and Rs. 24.7 crores (1858-59) and in the same period the debts of the Government of India increased by 36 per cent. From the year of the Mutiny for five years accounts of each financial year showed a deficit. The finance minister, said Robert Lowe, a Chancellor of the Exchequer, was "an animal

that ought to have a surplus". The dictum accurately reflects the concern for 'balancing' the budget, a characteristic feature of the Gladstonian era. Judged by this criterion Indian finances were in bad shape in the post-Mutiny period. In point of fact "financial equilibrium", as it was commonly called, had always been precarious on account of some extraordinary demands on Indian resources. It is instructive to note how closely the periods of imperial expansion in the pre-Mutiny period coincided with the deficit periods of 1814-19 (Nepal War and Maratha War), 1823-28 (the First Burma War and siege of Bharatpur), 1838-48 (Afghan War, Sind and Gwalior Wars, the Sikh wars) and 1853-55 (Second Burma War). The unprecedented increase in military expenses during and after the Mutiny caused a crisis. "Reforms become possible only when an emergency arises. Such an emergency has now arisen and reform and changes are now possible that have not been before in our day" : thus wrote James Wilson, the man who was expected to solve the post-Mutiny financial problem.[1]

James Wilson (1805-1860), son of a woollen manufacturer, was in business since he was sixteen. He retired from a successful business career in 1844 and was M.P. for Westbury (1847-57) and Davenport (1857-59). He acquired some experience of Indian affairs when he was Joint Secretary to the Board of Control (1848-52)—when, incidentally, he played a leading part in the organisation of railway construction in India. He also had valuable financial training during the years when he was Finance Secretary to the Treasury (1853-58) and Vice-President of the Board of Trade (1859). He combined a practical knowledge of commercial affairs with a firm grasp over contemporary economic theory. As a matter of fact in England he was known and remembered chiefly as the able founder-editor of the famous *Economist* (1843) of London. The paper was founded with Cobden's support "to give the free trade movement an intellectual respectability".[2] Apart

from his contribution to the Corn Law controversy—a pamphlet on the *Influence of the Cornlaws* (1839)—Wilson applied his mind to the currency problem in the essays on *Fluctuations of Currency* (1840) and *Capital, Currency and Banking* (1847).[3] As a member of the so-called 'Banking School' Wilson criticised the 'Currency School' in the *Economist*.[4] Wilson was critical of the Bank Act of 1844 but later he used it as a blue-print for his Indian paper currency plan.[5] Wilson, persuaded by Sir C. Wood, accepted the position of Finance Member of the Governor-General's Council and joined the Council on the 29 November 1859; he died on the 11 August 1860 and within this short time he initiated the remodelling of the Indian financial system. His financial experiences stood him in good stead and his plans of the budget system and the income tax were based on his experience in England.[6] Wilson was accused by some, among them Sir C. Trevelyan, of being too 'theoretical'; he had, it was alleged, a tendency to ignore Indian conditions.[7] But Wilson, his biographer Bagehot writes, "apprehended that there was danger of administrative science, as established in most civilized countries, being disregarded in India....Although the people had to be gently led towards the path of economic science, yet he wished to show the kindest consideration towards the thought and sentiments springing from their historic antecedents".[8] One instance of the latter trait was the enormous care he took to establish the view that income tax was in consonance with the ancient Hindu laws codified in *Manu-Samhita*.[9] Wilson, as Trevelyan commented, "laid the foundation of the new system of Indian finance".[10] He commanded complete confidence in India.[11] The most convincing proof of the confidence he commanded in England came after his death—the price of India funds at once fell when the news of his death reached London.[12]

Henry Bartle Frere (1815-84) officiated as a finance member for over six months after Wilson's death. A product of Haileybury, Frere, was a competent officer in the I.C.S. and was appointed a member of the Governor-General's Council (1859-62) and, later, the Governor of Bombay (1862-67).[13] Wilson had requested Frere from his deathbed "to take up and carry through his unfinished measures".[14] Frere thought that Wilson's plans were too ambitious and felt "the hopelessness of any one mortal executing them".[15] He thought that "less haste would have been better speed".[16] He had the bureaucrat's distrust of 'theoretical' schemes and faith in hard work and "useful drudgery" : "you simply want", he wrote to Wood, "good accounts, and steady, good management in a hundred small details to extricate you from all embarrassments".[17] It is worthwhile to take note of this, for it was typical of the Civilian attitude which was distrustful towards persons, devoid of Indian experience, who tried to import English ideas and institutions. The passive resistance of the bureaucracy to innovations, accounted for the retardation and inefficacy of many modernising impulses.

Wilson's successor, Samuel Laing (1812-97) was not unsuccessful as a Finance Member though he had none of the 'financial statesmanship' of Wilson. His experience in the Board of Trade and practical experience of railway management were valuable : he was also a member of Parliament in the years 1852-57 and in 1859.[18] Laing was fortunate in being able to show a very small deficit in his first year (1861-62) ; he framed the budget for 1862-63 and left India towards the end of 1862—that year there was a surplus of £ 1.8 million. This was mainly due to a bumper opium revenue and retrenchments by the Military Finance Commission. Laing was popular with the commercial community for having reduced the tariff.[19] Laing, as we shall see below, came in conflict with the Secretary of State more than once.

Charles Edward Trevelyan (1807-88) another Haileybury product and a prolific author was perhaps the most brilliant of all the Finance Members although many others were better as financial experts. His pastime, it was believed, was to read blue books. He was regarded by Macaulay as "a man of real genius....not a bad brother-in-law for a man to pick up....at 100° of East longitude". After a successful period of service in India (1826-40) he returned to England and became Assistant Secretary to the Treasury (1840-57).[20] He was associated with Northcote in investigating the system of civil service recruitment in England. While he was the Governor of Madras (1859-60) he came in conflict with Wilson on the issue of centralisation of financial powers. When he was the Finance Member (1862-65) Trevelyan often had disagreements with the Secretary of State, leading, on one occasion, to a complete revision of the budget and tax proposals. Trevelyan, the *Friend of India* pointed out in 1864, lacked "active sympathy with commerce and the commercial community".[21] In 1865, when Trevelyan proposed export duty on tea and raw materials including jute, the commercial community as a whole turned against him.[22]

W. N. Massey (1809-81), a lawyer by training, had a minor role in parliamentary politics (in Palmerston's camp) since his election in 1855 to 1863.[23] He came to India in 1865. As we shall see later, there was a series of deficits in Massey's time (1865-68). He was generally regarded as a mediocrity and was supposed to be "indolent and resourceless".[24]

His successor Richard Temple (1826-1902) of the I.C.S. was not conspicuously able as finance minister. He was appointed Wilson's assistant in 1860—he referred to Wilson as "my master"—and subsequently distinguished himself in the service as a competent administerator.[25] He was Finance Member for a long period (1868-74). He could not establish rapport with the Governor-General Mayo.[26] Temple did not support

Mayo's scheme of financial decentralisation and Mayo found fault with Temple's handling of the Income Tax which provoked much opposition and criticism.[27] In July 1870 Mayo wrote to Argyll: "I do not believe he [Temple] ever can hold in the eyes of the world the position that a Minister responsible for the Finances of such an Empire ought to hold" because "he does not possess that knowledge of Finance or that power of originating measures which is indispensable to enable him to advise the Council...."[28] Mayo proposed to get rid of Temple by appointing him Lieutenant-Governor of Bengal.[29] Argyll thought of giving Temple the Governorship of Madras.[30] But no substitute for Temple could be found; Argyll did not think any member of the I.C.S. would do; he tried, without success, to persuade Stafford Northcote to accept the post of Finance Member.[31] Despite continual criticism in the Council and in the Press, Temple continued to preside over Indian finances.

John Strachey (1823-1907) was one of Mayo's trusted financial advisers.[32] It was popularly believed that there was keen rivalry between Temple and Strachey.[33] J. Strachey, a Haileybury man, was appointed, after a briliant career in the civil service, a Member of the Governor-General's Council (March 1868).[34] He subsequently became the Finance Member (1876-80).

Richard Strachey, the elder brother of John Strachey, was also regarded as an authority on financial matters.[35] At the head of the Public Works Department, Richard Strachey was responsible for two measures of great importance. He was the author of the plan (implemented from 1868 onwards) of financing irrigation works from loans: thus it became possible to spend more on irrigation works than it had been possible when the entire expenditure of Public Works had to be met from the revenue of the year. Richard Starachey was also responsible for the plan of decentralisation of finances: Massey's

scheme (1867) was based on the blue-print provided by Richard Strachey.[36]

Towards the end of our period recurring deficits caused much embarrassment to the government; the situation called for vigorous leadership at the highest level. In Finance, Lord Mayo was at the helm of affairs. Mayo was exasperated at the inefficiency of the finance department in India[37] in the face of the "sickening deficits".[38] He made up his mind to "take the Bull by the horns".[39] Mayo boldly undertook the odious and unpopular task of retrenchment : the provincial governments and the department of administration readily agreed to reduction of expenditure when the suggestion came from the Viceroy himself. He was also responsible for the decentralisation of finance.

The achievements of Wilson, Laing, Trevelyan and others—the founders and makers of the new Indian financial system—were considerable. The most important institutional innovation of the post-Mutiny period was the budget system. The new system, modelled to some extent on the English pattern, ensured a complete review of the income and expenditure of the coming financial year and a full scrutiny of the past year; the system also ensured that expenditure would not exceed specific sanctions on each head of charge. This system, together with the new system of audit and accounts, modernised the financial system which the East India Company had left behind in India. The Financial Department was reorganised and it began to exercise effective control over disbursements in all departments. The Finance Member occupied a position somewhat like that of a finance minister in a cabinet, though he was not responsible to any representative assembly : the Legislative Council (despite the presence of a few non-official members) was far from being a democratic representative body and in financial matters its powers were very limited. The Secretary of State had full financial control over the Indian

Government : the Government of India Act of 1858 concentrated the power of financial control and scrutiny in the hands of the Secretary of State in Council. The latter tightened his hold on the reins as the system of communication between England and India improved. (The connection between the technology of communication and the distribution and exercise of power—especially the diminution of the district officer's powers and the increase of the Home authorities' control over the Indian government—deserves detailed study). In compliance with the provisions of the Act of 1858 he made a financial statement in Parliament every year, but the statements rarely received any attention.

The accent on "economical efficiency"—Wilson's favourite expression—also meant some measure of centralisation of financial powers in India. In the period 1858-61 the trend was towards centralisation and Trevelyan and Wilson came to a clash on this issue. In the early 'sixties several decentralisation plans were considered. Samuel Laing, W. N. Massey and Col. R. Strachey suggested various schemes, but Governor-General Lawrence was firmly opposed to decentralisation and in 1867 all decentralisation schemes were shelved. Mayo resuscitated the decentralisation idea : decentralisation of finance, he believed, would (a) improve relations between the Supreme Government and the provincial governments, (b) lead to local improvements financed as far as possible by local taxation, (c) enable the Supreme Government to get rid of some heads of expenditure which local governments alone could effectively control, and (d) enable the government to share responsibility of administration at the local and municipal level with the natives of India who would thus obtain valuable political training. In 1871-72 Mayo's scheme of financial devolution was implemented. Although the Mayo scheme had many defects it was a land mark in Indian financial history.

Thus at the organisational level "economical efficiency" was

approached, if not achieved, but the government was far from being prosperous. As a matter of fact, except for the years 1862-64, 1865-66 and 1870-72, in all other financial years in the period under review the balance sheets show deficits. On the revenue side land revenue and opium were the most important heads, contributing more than 40 per cent and 15 per cent of the total revenue. There were three commodity taxes: salt contributing about one-tenth and excise contributing about one-twentieth of the total revenue on the average; customs duties yielded about five to nine per cent of the total. A rather insignificant proportion of the total came from taxes on income and other direct taxes. There were several heads of revenue (stamps, mint, post office, telegraph, public works, court fees etc.) which the government thought were of the nature of special benefit revenues. On the expenditure side, the army and the public works accounted for about one-third and about fifteen per cent respectively of total expenditure. More than one-third of the total expenditure could be classified as administrative expenditure in England and India. The interest charges accounted for about one-tenth of total charges.

By the middle of the nineteenth century the land tenure policy of the Government had taken shape: the great controversies and experiments in land revenue administration and policy took place in the late 18th and the early half of the 19th century. The only big issue which remained to be settled was the question of extending permanent settlement to the temporarily settled areas: there were also problems in connection with redemption of land revenue and the sale of waste lands. It was decided in 1862 to extend Permanent Settlement of land revenue: the possibility (suggested by Col. Baird Smith) of improving the economic well-being of the ryots, the desire to instil loyalty to Government by the "absolute creation of property", the desire to remove all dis-incentives to investment of capital in land—these and certain other motives im-

pelled the Government to take this decision. But although the 'principle' of Permanent Settlement was accepted, the authorities started having second thoughts about the adventages of such a settlement. From the middle of the 'sixties there started a decline of faith in Permanent Settlement. It was felt that to fix the land revenue permanently would be a bad bargain for the Government. The Government found it difficult to devise a system of taxation to tax the agricultural wealth (which the Permanent Settlement, it was presumed, would create) and to get back what the Government would relinquish in revenue on the conclusion of a Permanent Settlement. The rapid rise in land values and fall in the value of the rupee also deterred the Government. The Government was anxious to safeguard its interests. Permanent Settlement was held in abeyance and in 1883 the idea of extending Permanent Settlement was formally abandoned.

Next to land revenue, opium was the most important head of revenue. Despite a tendency to fluctuate on account of accident of crop and chances of the market the opium revenue showed a steady progressive increase throughout the period. There was some threat of competition in the China market when indigenous production started there in a big way in the 'sixties; but this did not affect opium revenue immediately. Although the Indian Government was not connected with the production of Malwa Opium (which paid a transit duty in Bombay), the Government was closely connected with opium production in Bengal Presidency. There was an agitation in England against the Government's connection with opium traffic: but the Indian Government could not afford to give up opium revenue and paid no heed to the agitation of the Anti-Opium Society.

The tariff policy of the Government seems to have been based on the premise of a "division of labour" between India and England—the former supplying raw materials and the

latter specialising in industrial manufacture. It was an unquestionable axiom that tariffs must not be of a protective nature. The British manufacturing interests kept a vigilant watch on Indian tariff policy. This was understandable: Lancashire, for instance, exported nearly one-third of her piece-goods to India. For financial reasons all import duties on British imports could not be given up, but they were kept as low as possible. Export duties on India's raw materials were kept at a low level. In 1860-61, 28.1% of India's total exports consisted of raw materials for fabrics (cotton, jute, silk and wool); in 1870-71 the proportion had gone up to 43.3%. In 1860-61, 39.63% of total imports were cotton piece-goods; 1870-71 the share of cotton piece-goods had gone up to 46.82%.

The salt duty which was virtually a poll tax on the lowest income groups was an expanding source of revenue. The rates of duty were screwed up slowly; this was justified on the ground that rates had to be equalized all over India so that the inland customs barriers might be abolished. The income tax and the other forms of direct tax were aimed at the upper income brackets: but they failed to raise as much revenue as was expected.

The expenses of governing India were increasing continually. This was partly due to the general rise in prices and wages all over India, and partly due to the demand for improved administration. The increased expenditure on some heads of charges (e.g. Law and Justice) was justifiable. But the expenditure on education and public health was extremely low. The debt in India and particularly in England cost the Government enormous interest charges. Spasmodic efforts were made from time to time to reduce the civil charges and the burden of debts. These attempts were not remarkably successful. The Home Charges also could not be reduced: particularly the interest paid to guaranteed railway companies,

interest on debt paid in England and charges for the service of British forces serving in India were difficult to control.

The military expenditure accounted for about one-third of the total expenditure. After the Mutiny as soon as normalcy was restored the Government started retrenching military expenditure. But the Government was unable to reduce the forces below the minimum number which they thought would be necessary to prevent the recurrence of any upheaval like that of 1857. All the expenses of the British forces serving in India, expenses of recruitment, training, transport from and to England, expenses of maintaining an European standard of living in the Indian barracks, the retirement pensions etc. were met by the Indian Government. The latter claimed that the War Office was over-charging for the service of British forces. But the effective and non-effective charges for British forces could not be reduced : the Indian Government could not withdraw from the position it had accepted at the time of the amalgamation of the East India Company army with the Crown forces. Moreover, to Britain the army maintained at India's cost (including the native Indian forces) was a reserve force which could be employed if necessary in operations beyond the borders of India. The Army in India was the ultimate basis of Britain's dominion in India and influence outside India.

With public funds and private investments, heavily subsidised, transport and communication was developed and irrigation facilities were extended. The stimulus to economic activity in consequence of transport development and external economies and overhead facilities fell short of expectations. Certain features of the public works policy inhibited development : borrowing for financing public works (especially non-remunerative works) was avoided so that sufficient funds were not available; a very large proportion of public works funds was spent for 'non-development' works like military

barracks; the terms on which British capital was obtained for railway development in India cost India a large amount in guaranteed interest.

Before we start filling in the vital details in the crude map we have outlined in broad strokes, it may be useful to stand back and try to discern the long-term trends in the approach of the policy makers to the question of the government's role in Indian economic life.

There can be no doubt that the attitude of the British towards India underwent a sea-change as a result of the Mutiny. Sir George Trevelyan noted that "British temper towards India" was no longer what it was before the political upheaval of 1857.[40] An old Anglo-Indian, Sir Charles Trevelyan, regretted in 1863 that "the members of the Civil Service look homewards" more than was desirable: he attributed it to the development of rapid communication and the new furlough rules.[41] Another old veteran, Bartle Frere, writes: "the sympathy which Englishmen, whether long resident or fresh to India, felt for the natives has changed to a general feeling of repugnance if not of antipathy"; and Englishmen were "disinclined to remain here, or to care for India, and disposed to look at things in any but an Indian light...."[42] Moreover, India was becoming important as a field of investment and trade: it was no longer an orchard of "pagoda trees for England's younger sons to shake."[43]

The great endeavour of 'developing' India was the chief feature of the post-Mutiny era. Any project promising to develop India as a field of investment excited public interest and, sometimes, received the Government's support. India, James Wilson claimed was on the threshold of a period of development. This was indicated by "the rapid development of our trade both internal and external of late years, the extensive investment of capital....in public companies connected with tea planting, coal mines, internal nagivation....

the improved condition of the people, the increased quantity and value of the products of the soil, the rise in the rate of wages, increase of traffic on our roads, rivers and canals...." etc.[44] The volume of British capital investment in India reached an unprecedented height in the two decades following the Mutiny.[45] The cotton boom of 1861-64, the expansion of the market of Indian raw materials during the Crimean War and the American Civil War, the opening of the Suez Canal, the development of the railway system etc. gave a stimulus to trade and commerce, particularly in the western part of India.[46] In this process the British merchant's role was naturally crucial. The "conversion of Manchester from its belief in abstinence from empire-building and in non-intervention abroad, to a renewed faith in a spirited colonial and foreign policy" took place in the middle of the nineteenth century.[47] The new interest in colonial trade was partly due to the contraction of some foreign markets after 1870 due to the protection of tariffs in many countries,[48] and partly due to the establishment of fuller control over India after 1857. The principle of *laissez faire* was modified when the industrial and mercantile interests of England so demanded, and the Indian Government, pursuing a policy that was essentially pragmatic, often deviated from the strait and narrow path of *laissez faire* in important segments of public policy[49].

While the British mercantile community became more alive to their economic interests in India there was now a new awareness of Britain's "responsibility" to India. Fawcett and Hyndman's works on Indian finance deeply influenced the early Indian nationalists.[50] Dickinson tried to expose the "system of mystification" by which the Indian bureaucracy kept the English people in ignorance about Indian affairs.[51] Major Wingate in 1859 minced no words in his well-known tract, *Our Financial Relation with India*: British policy was not "determined out of pure unselfish and benevolent regard for

the welfare of the people of that country".[52] Wingate, Major Evans Bell[53] and Robert Knight[54] brought to light many facts concerning the expenditure of Indian revenue for other than Indian purposes and the so-called 'drain of wealth'. Experienced ex-officials like Hunter and Bartle Frere warned the English public that resentment in India was growing against the waste of Indian revenues and resources.[55]

The contemporary theory of public finance—the theory associated in England with the name of Gladstone—was based on principles of economic liberalism.[56] To the financiers of the last half of the nineteenth century 'taxation for revenue only' was an unquestionable axiom : protection of indigenous industries was ruled out. It was also their aim to keep public expenditure low and to raise the revenue in a way that would not injure private economic activity. The private entrepreneur according to the theory of economic liberalism, must not be inhibited in any way. And above all there must be a "balanced budget" : there should be a surplus of revenue over expenditure and public borrowing was to be avoided as far as possible. The policy makers in India could not ignore these orthodox principles of public finance.

It is a commonplace that the ascendancy of the *laissez faire* doctrine in the nineteenth century deeply influenced the policy of the Government of India. According to a leading authority on Indian economic development "the policy of *laissez faire* was followed entirely till the beginning of the twentieth century."[57] Recently it has been asserted that the "end of the Company's rule in 1858 marked the real beginning of the era *laissez faire*"— "a period of unbridled *laissez faire*."[58] Another historian has characterised the British Raj as 'the night-watchman state.'[59] To multiply instances would be easy and pointless. The term *laissez faire* has evidently become a well-worn cliche. Today, when the area of state functions has immensely extended, it is not perhaps unnatural to look back

upon the nineteenth century as the *laissez faire* era par excellence. We must also remember that it was integral to the 'de-industrialisation' thesis of the early nationalist spokesmen that the 'indifferentism' of the government hastened the decline of Indian industries in the nineteenth century. At any rate, a closer examination of the concept of *laissez faire* in the Indian context and to raise a few questions may be worthwhile.

It is not always sufficiently appreciated that the policy of the Indian Government—a policy essentially pragmatic—cannot be simply labelled as '*laissez faire*' or 'non-interventionism.' As a matter of fact in the latter half of the nineteenth century there was a recession from *laissez faire* in some important segments of public policy. That period witnessed a gradual erosion of faith in the *laissez faire* doctrines : pragmatic considerations counter-balanced and neutralised the *laissez faire* bias and theoretical predispositions at the higher decision-making level. In this process of recession from and reappraisal of *laissez faire* doctrines in India the mercantile and industrial interests of the metropolitan country had an important role.

There is a remarkable passage in J. S. Mill's *Political Economy* where he discusses the role of the government in an underdeveloped economy. "At some times and places there will be no roads, docks, harbours, canals, works of irrigation, hospitals, schools, colleges, printing presses, unless the government establishes them; the public being either too poor to command the necessary resources, or too little advanced in intelligence to appreciate the ends, or not sufficiently practised in joint action to be capable of the means. This is true, more or less, of all countries inured to despotism, and particularly of those in which there is a very wide distance in civilisation between the people and the government : as in those which have been conquered and retained in subjection by a more energetic and more advanced people."[60] It is significant that J. S. Mill—an apostle of non-interventionism to many—

recommended a programme for state action for the removal of barriers to economic development. Mill conceded that functions of government tended to be more extensive in a backward than in an advanced society.[61] He seems to endorse the view that lack of governance or mis-government was the main deterrent to economic development in some backward Asian communities.[62] Bentham recognised the fact that according to historical circumstances the 'agenda' of the state would vary; the limited conception of state functions in England would not hold good in a less advanced country like Peter's Russia.[63] Another Classical economist, McCulloch, strongly condemned the parrot cry of '*laissez faire*'.[64] It seems that the classical exponents of economic non-interventionism were not the whole-hoggers they are often supposed to be. If the Indian Government deviated from the narrow path of *laissez faire* they could find ammunition in the same arsenal from which the *laissez faire* propagandist would borrow. Sir John Strachey in his well known work on Indian administration quotes with evident approval the passage from Mill we have cited before.[65] It was a message congenial to the authoritarian bureaucratic mind.

"The English in India are the representatives of a belligerent civilisation".[66] Thus Sir Fitzjames Stephen. These words, wrote Sir John Strachey, bring out the spirit behind "the principles we enforce". Stephen and Strachey, Eric Stokes has pointed out, were typical of the new generation of administrators who, in the last half of the nineteenth century, combined an Evangelical conception of a civilising mission with a utilitarian zeal for efficiency.[67] This conception of duty emphasised the authoritarian element implicit in the utilitarianism of James Mill, developed an ideal of efficiency attainable only in a bureaucracy-dominated state, and made India a much-governed land where orthodox liberal non-interventionism had no

relevance. "The duties of the Government in India", said Sir John Strachey, "go far beyond those which we expect from a Government in countries like our own".[68] The rulers over the "lesser breeds without the law" and the masters of the lethargic heathen who believes in "doing things rather-more-or-less"[69] had enormous responsibilities. Sometimes their awareness of responsibility mingled with a religious fervour : "We, and, we only, are responsible to God for this people whom He has committed to our care".[70] Sometimes the responsibility was conceived in more secular terms as a concomitant of racial superiority. "Take up the White Man's burden" Kipling exhorted his countrymen. "The ports ye shall not enter/The roads ye shall not tread/Go make them with your living/And mark them with your dead".[71] The new conception of responsibility was the reverse of that negative conception of state functions which has been derided as the idea of the night-watchman state. In England the aversion to state control was considerable, but in India "the natural alliance of the scientific Benthamite administrator and the authoritarian Tory gentleman"[72] could be consummated.

It is possible to over-estimate the influence of the theory of *laissez faire* on policy-making in India. The bureaucratic mind was, if anything, pragmatic and was prone to doubt the relevance of certain norms of government policy derived from Western historical experience or economic thinking. The pattern of responses of the policy-makers to some typical problems, as we shall see, indicate that they often ignored, if they did not actually repudiate, the non-interventionist principles of economic liberalism. The search for the premises of economic policy must be extended beyond the region of abstract theories to the mundane level of stocks and shares, interests and dividends, parliamentary lobbies and chambers of commerce. In the period under review the policy that went by

the name of *laissez faire* in India was a policy oriented to promote the opening up of the Indian market, the development of raw-materials supply and the creation of a milieu for investment—involving in each case the use of political power in a way reminiscent of mercantilism.[73]

If one considers the wide range of activity undertaken by the government in India one might be tempted to generalise in this fashion : if *laissez faire,* as Brebner contends, was a myth in Britain it was no less a myth in India.[74] The pattern of investment in economic overheads to provide certain external economies ; the state-guaranteed investments in railway and irrigation companies ; the extraordinary measures taken to provide incentive to production of raw materials like cotton ; the remodelling of some land regulations which inhibited European settlement and investment in India ; the expenditure of public funds to finance pilot projects to encourage European enterpreneurship in India—all these provide significant instances of what might be called, from the British point of view, 'judicious interventionism' in India.

We must not fail to take into account other areas of government activity where the pristine purity of economic liberalism was maintained. *Laissez faire* principles were invoked as a counter to the infant-industries argument in the late nineteenth century controversies over tariff policy.[75] The government refused to interfere in foodgrains movements in a period when India was going through a cycle of famines.[76] Progressive taxation was avoided on the non-interventionist principle that it was "no part of the functions of fiscal arrangements to equalise the conditions of men".[77] The theory of public finance based on *laissez faire* principles inhibited government expenditure in certain types of social overheads.[78] And a rigid conception of the 'legitimate functions' of government sometimes prevented the government from taking a more positive role in

the industrial sphere.[79] These facts, indeed, are too well-known to warrant an elaborate discussion. The significant question is whether there is any fundamental contradiction between the interventionist and anti-interventionist policies which the government pursued simultaneously.

It seems that this contradiction between the two types of responses—pro- and anti-interventionist—is more apparent than real. Take for instance the case of Manchester cotton interests which, it is generally recognised, occupied a central place in the whole constellation of interests. To ensure supply of raw cotton for Manchester, as we shall see, considerable departure from non-interventionist principles was thought permissible. At the same time *laissez faire* principles were strictly enforced in the matter of denial of tariff protection to the indigenous cotton industry in India. Despite the apparent theoretical inconsistency between them, both policies subserved identical economic interests. The interplay of diverse ideas and the flexibility of government policy present too complex a picture. The label '*laissez faire*' encourages us to ignore this complexity. If a simple label is needed then, perhaps, 'discriminatory interventionism' is nearer the mark than '*laissez faire*'.

"Economic Liberalism" in the last quarter of the nineteenth century in Europe, J. A. Schumpeter observes, "became riddled with qualifications that sometimes implied surrender of its principles."[80] In England the modernisation of poor relief, regulation of factories and public health, experiments in 'municipal socialism', organisation of public education system etc. led to the widening of the area of government activity inspite of professed non-interventionism. Departure from *laissez faire* principles was, of course, in response to the emergence of industrial capitalism in England, while in India it was in response to the problems of a backward economy and its 'exploitation'. It may be plausibly argued that as a result of Indian experience

the British public men lost faith in *laissez faire;* at least they lost their aversion to policies involving expansion of government activity. Apart from the influence of continental theorists, perhaps it was "the business activity of the Indian Government which gave the strongest impetus to collectivism in England".[81] Be that as it may, it is quite clear that in the last few decades of the nineteenth century *laissez faire* was on the wane in Europe—even in England which Dicey considered to be its "natural home".[82]

While the German Historical Economists were attacking the *laissez faire* dogma—or Smithianism, as it was nicknamed in Germany[83]—in England too there was a cross-current of opinion against orthodox non-interventionism. J. E. Cairnes, the Professor of Political Economy in University College, London, declared in his introductory lecture in 1870 that the *laissez faire* principle had become "an obstruction and nuisance in public affairs."[84] On theoretical grounds also he was opposed to the view that "all political economy is summed up in *laissez faire*".[85] The idea was gaining ground that the economic principles applicable to the advanced countries of Western Europe were unsuited to countries which were far behind them in the line of historical development. The influence of Sir Henry Maine's studies in primitive societies and communities is very noticeable in the writings of Bagehot and Leslie.[86] Walter Bagehot asserted that India was a member of a "family of arrested civilisations"[87] Society has gradually evolved from "a pre-economic stage when the very assumptions of political economy did not exist, when its precepts would have been ruinous."[88] The early Classical Economists, Thomas Leslie thought, were wrong in depending on "abstract and a priori methods".[89] Leslie, influenced by Roscher,[90] emphasised the need to study the differences in economic structure in the different stages of social evolution.[91] This new mode of think-

ing was probably the product of an awareness of the differences in Western and non-Western historical experience and social situation. The Historical Economists categorically rejected the notion that the same economic principles would apply in all times and places and thus undermined the *laissez faire* dogma. The German School is remembered chiefly for its spirited attack on that dogma. But two German economists, Friedrich List and Karl Marx, went much farther, toward an analysis of the *laissez faire* philosophy in terms of economic interests. During the regime of the East India Company, Marx wrote in 1853, the ruling 'oligarchy' had no interest in developing India and they ignored the fact that in India agriculture was "not capable of being conducted on the British principle of free competition, of *laissez faire* and *laissez aller.*"[92] "But the more the industrial interests became dependent on the Indian market, the more it felt the necessity of creating fresh productive powers in India."[93] Thus, unlike the 'ruling class' who had "a transitory and exceptional interest in the progress of India" during the Company era, the industrial and manufacturing interests—"the millocracy", as Marx called them—were anxious to develop and to open up India.[94] Friedrich List's criticism of the *laissez faire* arguments for free trade are well-known and it seems that he profoundly influenced Indian protectionists, especially M. G. Ranade.[95] An industrialized country's attempt to foist free trade on its colony, was really an attempt to remove the ladder by which it had mounted, in order to prevent others from following.[96] There can be little doubt that List's advocacy of state interventionism to push forward economically backward nations and the success of the industrial promotion policy of the government in Germany[97] had an impact on the economic thinking of the early nationalists in India.

Participants in the controversies on Indian financial policy in the period under review often borrowed stereotyped phrases

from economic theorists or political ideologues in an attempt to rationalise motives and interests which were not made explicit. In studying the complex interplay of interests and the conflict of ideas we confront many problems. To identify the interest constellations is a formidable task. Some interest groups were formally organized and therefore easily identifiable (e.g. the Chambers of Commerce in Britain and in India, or the Manchester Cotton Supply Association), but many were not. Direct links between the interest groups and decision-making on matters of financial policy cannot always be established: there was sometimes no such connection and on occasions the absence of sympathy between the aristocratic pro-consuls (like Canning or Mayo) and the mercantile community of their own race in India, was the cause of much wailing and gnashing of teeth. Nor is it correct to assume a homogeneity of interest, even though each interest-group presented their own sectional interest in the garb of 'national interest' in order to reach and convince a wider audience and to recruit general support. In the following pages we shall notice over and again how the upper income-groups, including Indian landlords and merchants, urged the government to increase taxes on the 'masses' (e.g. the salt tax) so that the 'classes' may be relieved of tax burden (especially the income tax which fell on those enjoying a relatively high income); how the British merchant community in India insisted on retrenchment of government expenses so that their tax burden could be reduced, while the British bureaucrats and army officers opposed retrenchment and tried to increase their rewards for keeping the flag flying; how the Indian merchants and professional classes resented the fact that their earned 'life income' was taxed at the some rate as the unearned income from property (particularly the property of the zamindars under Permanent Settlement); and how provincial jealousies came in the way of efficient central control. Sometimes divergence of interests was temporary and super-

ficial, and, therefore, ultimately reconcilable. The British merchant and the bureaucrat might not see eye to eye on some questions, but there was no question about keeping the flag flying, no question about footing the bill—or allowing others to do so. It is necessary to make a distinction between divergence of interests of this sort and the more fundamental conflicts such as those Dadabhai Naoroji drew attention to. Representatives of interest groups could make their influence felt if they played the game according to the rules—and these rules were weighted heavily against Naoroji's 'constituents'. The policy makers were responsive to pressure from the interest groups within certain limits. The degree of responsiveness depended on the pressure exerted, the attitude of the Home authorities, the prevailing social ethos, and a host of other factors including the personal predilections of the men who made decisions (though this last factor was decisive only in rare marginal cases). The limits were determined by the over-all financial situation which might or might not permit concessions, calculation of possible impact of decisions on public opinion, the bureaucratic predisposition not to deflect the government too far from traditional lines etc. To study the rules of this game is one of our tasks.

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22 *Friend of India* 6 Apr. 1865, 27 Apr. 1965, 18 May 1865.

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CHAPTER TWO

THE SYSTEM OF FINANCIAL CONTROL

THE system of financial administration of the Government of India, like Topsy, had "just grow'd". Rationalisation of the system and the introduction of a number of institutional innovations was the achievement of a handful of men who applied themselves to the task in the decade following the Mutiny. The financial crisis precipitated by the Mutiny administered a shock which focused attention on this task. And the transfer of power in 1858 provided an opportunity for making structural changes. To study these changes and to understand the emerging system it is not enough to look into the Acts of Parliament or the regulations of the Government of India. We have to examine the system in operation in some detail to find out how financial power was actually exercised.

We shall study (Sec. i) the powers of the Secretary of State for India, and (ii) the functions of the Indian Finance Minister —or Finance Member, as he was called in those days. This leads to (iii) an examination of the position of the executive body, i.e. the Governor-General in Council, vis a vis the legislature in regard to financial matters. The development of (iv) the Finance Department and (v) the budget system provided an elaborate machinery for vigorous financial supervision and control. An analysis of the policy of devolution of

financial powers from the centre to the provincial governments (Sec. vi) brings to a close our study of the growth of a system of financial control in the post-Mutiny period of reconstruction.

I

The Government of India Act of 1858 concentrated the power of scrutiny and control in financial matters in the hands of the Secretary of State for India in Council. This enabled the Secretary of State to have considerable control over the Government of India : finance, as Argyll wrote in one of his private letters to Mayo, was "a wide subject—and a door into every other".[1] Section XLI of the Government of India Act, 1858, ran as follows : "The expenditure of the revenues of India, both in India and elsewhere, shall be subject to the conrtol of the Secretary of State in Council, and no grant or appropriation of any part of such revenues or of any other property coming into the possession of the Secretary of State in Council by virtue of this Act, shall be made without the concurrence of a majority of votes at a meeting of the Council". Further, the fiftythird section required that parliament should be furnished with an account for the financial year preceding that last completed, with the details of receipts and disbursements, together with the latest estimates for the last financial year. The Secretary of State was also responsible for submitting to Parliament an estimate of debts and liabilities chargeable on the revenues of India.[2]

The tradition of strict control at the India Office end was, perhaps, partly due to the fortuitous factor that the first Secretary of State was Sir Charles Wood who was, as Dalhousie wrote in one of his very private letters, "fidgety and meddlesome".[3] He was particularly careful to assert his powers of financial control and supervision under the new Act of 1858. Any remissness on the part of the Governor-General in Council

in keeping the Secretary of State informed and in sending in accounts and estimates for scrutiny at the India Office was sharply reprimanded. For instance, in his despatch of the 26 March 1860 Wood called the attention of the Indian Government to the fact that "the official information which has been forwarded to me by your Government has been much in arrear of that received in this country by the Editors of Public newspapers and private individuals . . . . This is an omission on the part of the Government which must not be allowed to occur in future . . . ."[4] Similar complaints were made in the financial despatches of 12 January and 26 May 1860.[5] The first Finance Member, James Wilson, tried to keep in touch with Wood through personal correspondence and Canning had assured the Secretary of State that financial measures would not "pop into law" without his prior consent.[6] Wilson's successor Samuel Laing was severely reprimanded for failing to communicate financial estimates to India Office and for publishing in the *Calcutta Gazette* estimates which were at variance with those supplied to the Secretary of State.[7] The Secretary of State laid it down that no deviation was to be made from the accounts and estimates prepared by the Government of India for Parliament without previously informing the Secretary of State.[8]

With the improvement in communication between England and India the Secretary of State further tightened his hold on the reins. In the Secretary of State's despatch of 17 March 1864, forbidding increase of salary and creation of office without prior reference to Home authorities, it was observed : "in consequence of the greater rapidity of communication between the Government of India and England, there is now less reason than formerly existed for dispensing with such approval".[9] The Governor-General in Council contended that the new rule (precluding the Indian Government from creating an office or increasing salaries) would forbid creation of new

office by legislation and thereby illegally limit the powers of the Legislatures determined by the Indian Councils Act.[10] The Secretary of State correctly pointed out that under Section 22 of the Indian Councils Act the Indian Legislature was expressly precluded from any law affecting any of the provisions of the Government of India Act (21 & 22, Vic. C. 106) which gave the Secretary of State in Council full financial control. "This restriction affords distinct evidence that the powers of legislation granted to the Governor-General in Council for making laws, large as they are, were intended to be exercised as to the power over the revenue in subordination to home control".[11] The Indian Government apprehended that the time spent in obtaining previous sanction would cause delays prejudicial to public interest. But the Secretary of State thought that if the Indian Government carried into effect some important change involving expenditure, the Home authorities would find it difficult to refuse sanction or else it would indicate disapproval of the proceedings of the Indian Government.[12] At any rate, the development of communication system—the overland cable (1868), the Suez Canal (1869), the sub-marine cable (1870)—strengthened the Secretary of State's control over Indian financial matters. Mayo and Argyll often communicated with each other telegraphically.[13]

Although in theory the power of financial supervision and control was given to the Secretary of State in Council, the Council and Parliament were not effectively controlling financial policy. The Government of India Act. 1858, gave the Secretary of State power to overrule his Council in some cases, but he was debarred from doing so in the case of appropriation of revenues of property, the issuing of securities for money, contracts, alteration of salaries etc. In 1869 Lord Cranborne, Sir C. Wood's successor, proposed to limit the power of the Council which, he felt, could claim the right to control general policy against the Secretary of State by its power over expendi-

ture.[14] Although the Council's powers were not delimited afresh, legislation in 1869 (32 & 33 Vic. C. 97) strengthened the Secretary or State's hands by giving him the power to fill vacancies in the India Council; the tenure of members of the Council was reduced from a tenure 'during good hehaviour' to a term of ten years. Sir C. Wood found that the India Council was "the most cumbrous machine for the government of a country that was ever invented".[15] The Council was expected to aid the Secretary of State with, as Wood put it, the "concentrated knowledge of all India".[16] But the experience which the superannuated civil and military servants had gained and their ideas fast became obsolete.[17] In order to bring men with practical experience into the Council it was once proposed to admit some members from the business community and some civil officers "straight from the districts"—but this proposal fell through.[18] Most members of the Council were unable to follow the technical intricacies of Indian finances and the Secretary of the Finance Department of the India Office appears to have been the Secretary of State's most important adviser in financial matters. However, the Council was useful to the Secretary of State as a screen, Often the Secretary of State "has sheltered himself behind his Council", Northcote wrote to John Lawrence. "I often think he is like Adam, ready to throw his own faults upon Eve, 'The Council gave unto me and I did eat'."[19]

In compliance with the provision of the Government of India Act, 1858, the financial statements were annually made in Parliament by the Secretary of State but the statements, often made at the end of the session, received little attention; few members could offer informed criticism.[20] This was generally known and the neglect of Indian affairs often provoked critical comments in the Indian Press.[21] Although Indian affairs did not generally attract much attention (except in times of crises, e.g. the Mutiny), there were some groups in Parlia-

ment which took special interest in Indian economic and financial policy. There were the so-called "cotton M.P.s" who put pressure on the Indian Government through the Secretary of State with a view to improving cotton supply from India; this group was particularly active during the cotton famine in Lancashire (1860-64) caused by the cessation of cotton supply from the United States during the Civil War.[22] There were a few M.P.s, connected with anti-opium agitation, who tried to influence the authorities and to persuade them to give up opium traffic (which was, next to Land Revenue, the most important source of revenue).[23] It is wellknown that a pressure-group representing business interests kept a vigilant eye on the tariff policy of the Indian Government.[24]

In the days of the Company there were periodic reviews of Indian affairs. In 1870 such a review of Indian finances was proposed. The correspondence between the Governor-General and the Secretary of State on this subject is of great interest, for it indicates that Mayo was definitely opposed to a Parliamentary enquiry while Argyll was not quite enthusiastic. Mayo apprehended that the appointment of the proposed select committee on Indian finances would create the impression among the native population in India that the Indian Government lacked confidence of the Crown and Government of England. Nothing, he said, would be gained "by opening a Lion's mouth in London for the reception of the produce of ignorance and malice—of the defence of ancient fallacies and modern blunders."[25] Mayo thought that the enquiry by M.P.s would be fruitless because they were quite ignorant of contemporary Indian conditions. "London is swarming with dilettanti Indian Statesman and old *Qui Hyes* who only know the India of 15 or 20 years ago—every one of them has many crotchets 9|10ths of which have been exploded years ago. These would all be re-aired".[26] He was anxious to confine the scope of the enquiry: "I have no doubt", he wrote to

Argyll, "that if it (Parliament's Select Committee) has any result it will not be a good one. . . I hope you will be able to restrict the enquiry to explain specific subjects".[27] Mayo feared that the Indian Government would not be in a position to defend itself, particularly because its financial reforms had not fructified.[28] Temple, the Finance Member, after following the proceedings of the Select Committee concluded that some of its leading members, particularly Prof. H. Fawcett, were biased against the Indian Government.[29] The Secretary of State pointed out that the Select Committee, although "a bore", had its uses. "I am not surprised", he wrote to Mayo, "that you object to a Parliamentary Committee. The Indian Government has always disliked them and naturally so. But in old times as you know, such enquiries were necessarily held at each renewal of the charter—and it is not unnatural that Parliament should desire under the new regime some similar opportunities of bringing its mind to bear upon Indian affairs. Personally such a Committee is a bore to all of us here".[30] It seems that the Governor-General, Secretary of State and the Finance Member were less than enthusiastic about parliamentary enquiry. The Indian Government feared what Mayo in his letter to Disraeli termed the "Indian grievance mongers". Among the grievance mongers were "the Radicals [who] have an inherent proclivity towards supporting motions hostile to the Government of India".[31] Parliament's interference was, it seems, not only a bore : it engendered a feeling of insecurity in the mind of the guardians of the Empire.

II

Let us now turn to the system operative in India. The Finance Member in the Governor-General's Council was the king-pin of the post-Mutiny financial system. Before the inclusion of James Wilson in the executive council of the

Governor-General there was no member in charge of the department of finance. Reflecting on the system prevailing in the 1850's, Richard Temple writes: "In those days there was little or none of the distribution of work which now [Temple was writing in 1880] exists between the Governor-General and members of his Council, whereby Government of India works somewhat after the manner of an English Cabinet . . . . Finance was the business not of any one member of the Government but all members alike".[32] When James Wilson was approached by Sir Charles Wood to go to India to fill up a vacancy in the Governor-General's Council he was given to understand that his status would be that of the "Indian Chancellor of Exchequer".[35] Officially he was designated "the fourth ordinary member" of the Governor-General's Council. He was generally known as the 'Finance Member', sharing a place at the top of the bureacratic pyramid with the 'Law Member' and the 'Military Member'.

Under Canning's guidance a portfolio system of division of work in the Governor-General's executive council was evolved;[34] under Sec. 8 of the Indian Councils Act of 1860 the Governor-General was authorised to make rules for transaction of business in his Council. The appointment of a Finance Member was a step in the direction of specialization and division of functions. Being an expert in technical intricacies of finance the Finance Member enjoyed an advantage over the other members of the Council. Particularly those Finance Members (e.g. James Wilson and Samuel Laing) who were sent from England commanded more confidence than the civil servants promoted to the Viceroy's Council. "There are many advantages", Secretary of State Argyll wrote in 1870, "in putting in that [Finance Member's] position a public man from England, if a good one can be got. No civil servant escapes jealousy among his fellow civilians and both the European and the native community are apt to regard a man from England

with more respect than an Indian Civil Servant".[35] The brilliant success of James Wilson created an impression that those sent out from England were likely to be useful, particularly if someone with a Treasury background like Wilson could be found. The "Home authorities" felt that what Indian finances needed was "a fresh eye looking at Indian Finance from an English Treasury point of view . . ."[36] In India, however, the prevailing opinion in the civil service was decidedly against appointment of "outsiders" from England to a coveted post in the Viceroy's executive council. Sir Bartle Frere, for instance, thought that it was "useless to attempt importing" Finance ministers from England for "the net result is not worth the cost"; "whoever comes will feel he has, like a Roman Consul, to make his name famous in a single year, or at most two or three, and will not be content honestly to carry out his predecessor's policy".[37] India, Bartle Frere wrote to Sir C. Wood, need not look to the English Treasury for "miracles of financial statesmanship". The Indian finance department, Bartle Frere speaks like the typical Indian civilian, only needs hard work and "more useful drudgery" and "good management in a hundred small details".[38] This was the opinion of the "Civilian party in India". The *Hindoo Patriot,* reflecting enlightened Indian opinion, castigated the "Civilian party" and said: "We want a statesman for the office of the Finance Minister and not a mere administrator, and Indian Civilians, however efficient administrators they may be, are not as a rule statesmen".[39] The *Hindoo Patriot* deplored the return to the old practice of entrusting the finances of India to the charges of a civilian, for the civilians have been "unintelligent and improgressive [sic.] and without the healthy influence of fresh English ideas they were unable successfully to grapple with the difficult problems" of finance.[40] At any rate, since it was difficult to obtain the services of competent English financial experts (e.g. S. Laing) and public men (J. Wilson),[41] vacancies

in the Viceroy's Council had to be filled up with civil servants who had financial experience in England (e.g. Sir C. Trevelyan) or in India (Sir R. Temple).

The system evolved during the period we are studying resembled in some ways the English cabinet system. While announcing the appointment of the first Indian Finance Member in the House of Commons Sir Charles Wood declared that the Finance Member would not be "the *alter ego* of the Governor-General, and he would not be solely responsible for the finances of that country. He would be a member of the Council of the Governor-General, taking charge of the financial department; but the Governor-General and his Council would be responsible for his acts, because he could do nothing without their sanction and concurrence".[42] The Secretary of State in his despatches to the Governor-General in Council carefully defined the Finance Member's position and the limits of responsibility. The fourth ordinary member of the Council was charged with "the duty of proposing financial measures which he may recommend for your consideration and decision . . . Mr. Wilson can only exercise the same powers as may be exercised by any other member of Council and your Lordship must still be held responsible for all measures which may emanate from your government".[43] The financial statement or the budget speech by the Finance Member must be a statement of the policy of the entire government: "It is of course impossible that your Government can be held responsible for all that falls from the [Finance] Member of your Council" but the financial statement must in the main features be the statement of the government's views and the Government of India would be responsible for the statements and proposals made by the Finance Member "who, on such matters, acts and speaks as its organ".[44]

In accordance with 'cabinet-principle' the members of the council could not divulge 'cabinet-secrets' and discuss openly

any difference of opinion on issues decided upon in the council. On one occasion Mayo privately reprimanded Sir William Mansfield, the Military Member, for having made public statements which disclosed a serious difference of opinion on the budget of 1868-69 in the Council.[45] Mansfield was unhappy that the Members of the Council "were bound to support before the public what they positively disapproved and opposed within closed doors".[46] But he accepted the principle that the discussion inside the Council should not be brought out into the open and in the Legislative Council he supported and voted for the financial measures which he had opposed in the executive Council.[47] Unanimity in the Council was desirable and was almost always obtained. All members of the Council, signed the despatches to the Secretary of State; if there was any dissenting member he had to be content with writing a minute of dissent. In this context the "passion for doing what they call 'recording their opinion'" (which tried Mayo's patience) is understandable.[48] The habit of writing minutes was, perhaps, also a survival from the pre-mutiny period when much of the discussion between the top members of the Government was done through minutes and notes which went slowly round in black boxes and were throughly perused and commented upon before any decision was taken.[49] At one time Secretary of State Northcote proposed that to obviate problems arising out of conflict of opinion in the Council the Governor-General's powers vis a vis the Council should be increased. "I am very desirous", Northcote wrote in a personal letter to Governor-General John Lawrence, "to give the Governor-General a position of greater independence, and to let him nominate his own councillors, facilitate his overruling them when he thinks fit, and let him (not the whole body) sign the despatches".[50] However, Northcote soon gave up this idea because the prevailing opinion in the House of Commons, he found, was against giving these powers to the Governor-General.[51]

III

Under the Act of 1853 (16 & 17 Vict. C. 95) the Legislative Council conducted its business in a manner which superficially resembled the practices of a parliamentary body.[52] Not only did the legislative members have voting powers in all business, but the proceedings of the Legislative Council were made public and the proceedings were published. The Governor-General and his executive council had to place before the Legislative Council the various measures for collection of taxes which were devised to tide over the financial crisis precipitated by the Mutiny. That the experienced official members of the Legislative Council were in a position to criticise and to influence the Governor-General and his Council is evident from the proceedings of the Legislative Council of 1859-60 when various proposals regarding income tax were being discussed.[53] The first budget was presented before the Legislative Council on 18 February 1860 by James Wilson; this, and "the necessity for taxation" had according to Bartle Frere, "drawn attention to its proceedings."[54] On the role played by the Legislative Council there were different views. Sir Charles Wood was of opinion that the Legislative Council had assumed a position that did not belong to it. It was becoming a platform for public debate; it was too much inclined to enquire into executive business.[55] There were dissidents who believed that the Legislative Council was performing a useful function. Sir Bartle Frere, for instance, wrote to Wood: "Lord Dalhousie gave the Council the form of a deliberative assembly, and the Mutiny of 1857 rendered it necessary to impose new taxes. The result may make the government of India more difficult than before, but whatever the result, I believe it to be impossible to recede, and I see the greatest danger . . . . to raise taxes without the kind of discussions which now precede legislation".[56] Sir Charles Wood, however, pointed

out that in the Legislative Council (under Act of 1853) there was no Indian representation : "I am by no means comfortable at the prospect of English settlers [sic.] legislating for Indian dependents . . ."[57]

The Indian Councils Act of 1861 (24 & 25 Vict. C. 67) modified the powers of the Legislative Council. There was provision for non-official representation and, though there was no legal provision, an assurance was given in the House of Commons that Indians would be included among the non-official members.[58] The sanction of the Governor-General was required to the introduction of any measure affecting the public revenue or debt (Sec. 19). Technically, there was no scope for discussing the budget because the powers of the Legislative Council were restricted wholly to legislation (including, of course, the consideration of motions for leave to introduce a Bill). However, in the period 1861 to 1872 financial statements were annually made in the Legislative Council because fresh financial legislation was called for every year. Thus the introduction of fresh taxation bills provided an occasion for a financial review or a budget statement and a brief discussion in the Council. When no financial legislation was necessary (e.g. in the period 1873-76) instead of giving the financial statement to the Council, the Government published it in the Gazette of India. Until the passing of the Indian Councils Act, 1892 (55 & 56 Vict. C. 14) the Legislative Council was not authorised to discuss the annual financial statement and to ask questions.[59]

The educated middle classes, the only vocal and articulate section of the Indian people, demanded a system which would ensure some degree of public control over the public purse through the Legislative Council. The prominent "native" newspapers and bodies like the British Indian Association were, as we shall see later,[60] intensely dissatisfied with the existing system which, to quote Sir Charles Trevelyan, was

merely "a studious imitation of the forms of popular assembly" without "a real representation" of the Indian people.[61] The Government of India was, however, satisfied that the existing system was the most suitable for efficient administration. The Governor-General in Council wrote to the Secretary of State in 1867 : "the system which has gradually established itself since the introduction of annual budgets is one dictated by common sense, convenience and the circumstances of the country".[62] The Legislative Council consisting of experienced officials, non-officials, Europeans engaged in business and some nominated members representing Indian aristocracy were asked to adopt on a comparatively brief consideration, proposals submitted to them on the responsibility of the Government, and on its assurance that the supplies were really required. Under the circumstances, the Government of India felt, this was the most efficient way of obtaining the sanction of the Legislative body. The Indian Government would "be placed ordinarily in a position of the greatest difficulty if the legislation required by the financial arrangements implied in the budget system was made subject to the rules for the conduct of business". If, in addition to the delays unavoidable in a country of the size of India, "still further delay were imposed by requiring our fiscal legislation to follow all the rules prescribed for ordinary enactments, the period at which new imposts would recruit the finances would often be postponed for months, and the result would be practically fatal to the system of annual budgets".[63] The "native" newspapers and associations spoke of *political* rights. To the bureaucratic mind it was merely a question of *administrative* convenience.

IV

In the beginning the Finance Department, established in 1843, was headed by the Chief Financial Secretary to the

Government of India. Initially the bulk of the work done in that department was in connection with the control of disbursements while the Home Department was in charge of a great deal of financial business in the revenue collection branch. In September 1859 Sir Charles Wood confided to the Governor-General his dissatisfaction with the prevailing system: "the business of Revenue, viz. its assessment and realization so far as it is conducted and controlled by the Government of India, is carried on and brought before the Governor-General by one (viz. the Home) Secretary, whilst the business of the Financial Department to which is entrusted the direction and control of the entire Revenue when realised, is conducted and brought before the Governor-General by another (viz. the Financial) Secretary".[64] This system, the Secretary of State observed, was less efficient than that prevailing in England which was based on the principle that it was the duty of the same department which controlled expenditure, also to provide the ways and means of defraying it. Canning and his Council and the Secretary of State were discussing plans to unite the Home and Finance Departments,[65] when James Wilson took charge of the Finance Department in late 1859. The 'port-folio system' introduced by Canning in his Council naturally led to a more systematic division of functions and the concentration of financial work in Wilson's department. In March 1861 all business connected with stamp and customs duties were transferred from the Home Department to the Finance Department.[66] Except for a brief period (from March 1862 to Oct. 1863 when, for administrative convenience, the Home Secretary was allowed to control these branches)[67] the Finance Department was in control of these branches of revenues.[68] In October 1863 Salt, Opium and Abkaree branches of revenue were also transferred from Home to the Finance Department.[69] Thus Sir Charles Wood's aim of unifying under one control revenue

assessment, collection and disbursement was substantially achieved.

The Financial Department exercised firm control over other departments in respect of expenditure. Expenditure in the Military Department was, during the days of post-Mutiny retrenchment, under the supervision of the Military Finance Commission (appointed in June 1859) which was later converted into the Military Finance Department (July 1860) and finally abolished (April 1864).[70] It had done the useful work of reduction of armed forces but it was not worthwhile to maintain a separate and independent system of audit and control in Military Department.[71] An Accountant General to the Military Department—generally known as Controller General of Military Expenditure—was appointed to discharge the function of the defunct Military Finance Department.[72] The Controller General supervised over the preparation of army estimates which were finally submitted to the Finance Department; no interference was made in permanent authorised expenditure but temporary contingent charges were strictly scrutinised and estimates for the year for the Military Department could not be exceeded without prior sanction.[73] Disbursements in the judicial, Legislative, Police, Revenue, Marine, Educational, Ecclesiastical, Postal and other branches in the Home Department were subject to the Finance Department's scrutiny.[74] In these and other branches of administration all proposals of revision of scale of salary and creation of new office were submitted to the Finance Department and through that department transmitted to the Secretary of States.[75] In the Public Works Department, created by Dalhousie in 1854, the system of financial control was particularly elaborate. The budget allocations could not be exceeded and transfer of funds from one head to another was not usually allowed. Civil and irrigation works involving expenditure above a certain amount could not be undertaken by the Presidency Public Works

Departments unless prior sanction, on the basis of budget estimates submitted to the Central Public Works and Financial Departments, was obtained. Military works, started in a big way in the 'sixties, one of the results of Florence Nightingale's efforts to make the authorities 'sanitation-conscious'—were undertaken by the Military Public Works Department subject to the control of the Finance Department. In the case of Railway construction alone the Finance Department's control was loose and its efforts to curtail expenditure, through a system of joint consultation with the Railway Companies, were unsuccessful.[76] Apart from these three Departments—Public Works, Home and Military—the Department of Revenue, Agriculture and Commerce should be mentioned in this connection. The latter Department was set up in June 1871 for the encouragement of agriculture, the exploitation of mineral wealth and "diffusion of industrial knowledge".[77] To this department were transferred business relating to land revenue survey settlement, agricultural and trade satistics, forests etc; after 1872 some revenue branches also were transferred to this department.

For the efficient discharge of its multifarious and exacting duties the Finance Department needed competent and qualified personnel. This was not easily available. A separate financial branch in the service was created in 1857; to this branch were appointed only those convenanted officers who could pass an examination in book-keeping, management of treasuries, and in the principles of the revenue system of India. In May 1862 a class of probationer officers was created to train youths for service in the Finance Department. At the same time Finance Member S. Laing declared that the distinction between convenanted and unconvenanted servants would end and promotion would be solely on the basis of merit.[78]

The plan of training young officers in India failed and the Secretary of State was requested to recruit, with the aid of the Civil Service Commissions, young men proficient in accounts

in England for appointment to the Indian financial service.[79] The Secretary of State found it difficult to recruit men with sufficient training and experience willing to go to India and urged the Governor General to try to find qualified candidates in India.[80] Mr. Foster, an official from the British Treasury, came to India on a special mission as an adviser to the Finance Department. He observed that the high emoluments in the Treasury attracted the best men in public service in England while the low scale of salary in India was not sufficiently attractive: "experience demonstrates the bad economy to the State of fixing the commencing salaries at an amount so low that the rejections of merchants' offices and such as are incapable of obtaining a livelihood, except as government pensioners, are the classes to which is entrusted the conduct of financial business of the State".[81] Sir Charles Trevelyan (who was regarded as an authority on civil service recruitment since the famous Trevelyan-Northcote reforms in England) was unwilling to revise the scale of salary—the finances of the government, almost always on the brink of deficit, would not permit the government to increase expenses in the Finance Department.[82]

To improve the Finance Department it was also suggested that a larger number of covenanted officers should be employed.[83] Since 1862 there were only two covenanted officers in the Department—the Financial Secretary and the Accountant General—so that many responsible posts were given to uncovenanted officers. Few covenanted officers wanted to come to finance department where opportunities for advancement and emoluments were less than those in other branches of service.[84] In 1865 the Financial Secretary observed that one cause of the inefficiency of the department was that high positions were occupied by uncovenanted officers who when promoted were "too old to learn" and were "rendered incapable of exercising a proper influence" because of their long service in a subordinate capacity.[85] Sir Charles Trevelyan, however,

demurred. He pointed out that before 1862, when there were a number of covenanted servants in the department, efficiency was no better. The uncovenanted officers, he thought, were educable and they, unlike the covenanted servants, usually remained in the finance department where their prospects of being promoted were better than elsewhere. At any rate, the Government could not afford to employ a large number of covenanted servants in the Finance Department.[86]

The root causes of inefficiency in the financial department were that men in the subordinate services were insufficienty educated and badly paid and the officers from the civil service while possessing a fairly good educational background, were not specially trained in financial management. The prospects in the finance department were not sufficiently attractive to draw the kind of personnel the British Treasury possessed. Even in 1869, ten years after Wilson's arrival from England, it was still felt that the department was "feebly manned".[87] The development of a financial service, equal in efficiency to the military or administrative services, was a very slow process.

V

Among the institutional innovations introduced after the Mutiny the most important one was budget system. Up to the financial year 1860-61 the disbursements and future requirements had to be ascertained, in the absence of an annual budget of imperial income and expenditure, through a complicated system of 'Anticipation Estimates', 'Sketch Estimates' and 'Regular Estimates' prepared at different times in course of the financial year.[88] The *Anticipation Estimates* were submitted by Local Accountants to the Supreme Government two and a half months prior to the commencement of the financial year; they also contained in parallel columns receipts and disbursements of the two previous years for comparison. The

Sketch Estimates, with corrections up-to-date, were due from Local Accountants when four months of the financial year had expired. The *Regular Estimates* submitted three months later contained annual receipts and disbursements of the first six months, which were already known, as well as corresponding estimated figures for the rest of the financial year. The Local Accountant in every Presidency or Province received monthly or weekly returns about the financial requirements of the disbursing officers of each department, civil, military, public works etc. In addition to the Anticipation, Sketch and Regular Estimates, monthly returns of cash balance were also received from the Local Acountants by the Government of India. The receipts and disbursements, estimated or actual, were compared by the Finance Secretary of the Government of India to find out the extent of requirements for the allotment of funds. The actual disbursements were subjected to detailed audit by the Audit Department. Expenditure was usually divided into two categories—fixed charges (e.g. interest on public debt, civil establishments and salaries, military charges etc.) and temporary charges subject to variations (e.g. cost of stores, *batta,* contingencies etc.). As a rule no charges of the nature of fixed charges could be incurred by a department without specific sanction. Variable charges could be incurred only under the close application of established general rules or under specific sanction. Departmental officers were bound to limit their total expenditure to the total amounts sanctioned under the estimates. Even within this limit very little latitude was allowed to them to apply the supply of one specific grant to make up the deficiency of another.

James Wilson had to familiarize himself with this complicated and peculiar financial system. "The Indian Exchequer is a huge machine", Wilson wrote to Walter Bagehot, "the English Treasury is nothing to it for complexity, diversity and remoteness of the points of action".[90] To rationalise the com-

plex machine was his main task. On the 7th April, 1860, the Government of India resolved to introduce the Budget system. Earlier, on the 18 February 1860, James Wilson had presented before the Legislative Council a budget statement on the basis of rough estimates. Wilson may be regarded as the creator of the budget system in India. However, Sir Charles Trevelyan, in May 1859, had anticipated Wilson by drawing up a plan of a budget system for India.[91]

The resolution of 7th April, 1860, envisaged the introduction of a system approximating as closely as possible to that of England. The system was briefly described as follows: "Before the commencement of each official year, the Supreme Government will require careful estimates to be formed of the anticipated income and the proposed expenditure of the Empire for the coming year. And after considering the various objects to be accomplished in relation to the means and resources for such accomplishment; after comparing the past with the proposed expenditure; after weighing the recommendations of the several Executive Governments, and the Heads of Departments, the Supreme Government will allot and appropriate to each branch of the service, and to the several heads within each branch, specific sums. The several Executive Governments and the Departments will be charged with the due application of the sums assigned by the above Act of Appropriation".[92]

The advantages of such a system over the existing one were pointed out in the resolution. In the first place, the system ensured a complete review of the income to be expected and the expenditure to be incurred in the coming financial year: "when review takes place before the year commences, then it is one of prevision and not of experience—the reviewing authority is the arbiter of schemes which have not yet become accomplished facts". Secondly, under the new system expenditure would be subjected to periodical scrutiny, the ways and

means of meeting such expenditure would be considered in comparison with expected expenditure. This would effect a better balancing of future outlay and income. Moreover, the new system laid the foundations of systematic audit and accounts system. Each executive government and each department would be credited with the sum allowed by the Imperial Budget and against that amount would be debited the sums actually issued by the Financial Department of the Supreme Government. The expenditure would not exceed specific sanctions. Thus the system would generally promote "economical efficiency".[93]

Since the new system could not be introduced all at once, it was decided to introduce it partially in the financial year 1860-61 (while retaining for the time being the existing organization and methods) so that by the year 1861-62 it could be brought into full play. Many financial reforms connected with the budget system (e.g. the establishment of a central revenue board, reorganisation of Imperial Audit Department, preparation of budget forms substituting the forms of anticipation, sketch and regular estimates)[94] could not be accomplished in Wilson's life time. The task of building the administrative infrastructure for the efficient functioning of the budget system was left to Wilson's successors, Laing and Trevelyan.

A Committee was appointed to prepare a detailed plan for the adaptation of the accounts, and audit system of England to the Indian situation; the members were E. Drummond (the Accountant-General of India), C. H. Lushington (Financial Secretary to Government of India) and Richard Temple (from the Civil Service, specially appointed to the Committee in view of his experience as Wilson's personal secretary).[95] The Committee recommended that the financial work should be divided among two departments, Accounts and Audit departments, manned by two distinct classes of officers, one class exclusively supervising over disbursements and the other ex-

clusively supervising the accounts. The Accountant General of India would also be the Auditor General, uniting the two wings of financial service.[96] A reform of fundamental importance was introduced by the Budget Committee of 1860 : the method of appropriation audit. The chief defect of the pre-1860 system in India was the want of a budget estimate of specific votes or sanctions for each service for the year. Wilson rectified this by replacing the old system with the budget system, inaugurated with the first budget statement of 18 February 1860. But, together with a statement of anticipated expenditure (i.e. the budget), a system of comparing actual expenditure with estimated expenditure had to be devised so that expenditure would not exceed estimates and allocations to each branch of service were not used for other purposes. Appropriation audit was introduced, on the model of the English system, in order that progress of expenditure (in each branch of service and on the whole) might be ascertained from month to month.[97] The suggestion of the Budget Committee were adopted by the Government of India and under the new system the Accountant and Auditor General of India received from his subordinate accountants and auditors a monthly abstract of expenditure under each head of service which, after a final appropriation audit, was sent to the Finance Department in the form of a monthly report on expenditure for all India.[98]

The Budget Committee proposed that specific appropriation of funds would extend (1) to class of service, (2) heads of charges for each department in a class, (3) heads of charges for each section in each department. The Secretary of State doubted the expediency of extending appropriation to the detailed heads in each branch of service : in regard to minor heads of expenditure, he thought, some latitude in the application of funds might be allowed.[99] As advised by the Secretary of State, specific appropriation was limited to the first

two categories mentioned above (viz. branch of service and heads of charge for each department in each class) and was not broken down into detailed items.[100] The budget and estimate forms prepared by the Budget Committee were in accordance with this principle.[101]

One question, apparently of small importance, received a great deal of attention in the period under review : this was the question, when should the financial year commence? Up to 1865 the financial year commenced on the 1st of May.[102] The authorities were aware that there was a feeling in India "that the affairs of this great empire do not excite an interest in either House of Parliament proportionate to their importance" because the Indian accounts were presented at the fag-end of the session.[103] It was, therefore, thought desirable that the financial year should be antedated to make the Indian accounts available to Parliament earlier in the session. From 1866-67, in accordance with the recommendation of the Commision of Enquiry into Indian Accounts (7 Sept. 1864), the financial year began from 1st April.[104] Proposals to commence the financial year still earlier—if possible to begin it on the 1st of January—were discussed,[105] but this was inconvenient, considering the harvest seasons of India (which were connected with revenue collection).[106]

Thanks to the efforts of Wilson and the Budget Committee the system of annual budgets was launched without a hitch. However, limiting expenditure to the budget sanctions and to prepare accurate estimates of future expenditure were difficult tasks. Initially the local estimates prepared by Auditors and Accountants were found to vary widely from actual expenditure.[107] Subordinate governments often neglected to submit punctually estimates of their future requirements of funds so that estimates prepared by the Finance Department of Government of India were somewhat conjectural.[108] All disbursements in excess of estimates were discouraged and allotments

were not normally exceeded.[109] No application was normally entertained for sanction of funds in excess of budget allotments made "in accordance with the financial position of the empire, and the just requirements of the public service".[110] Grants which were sanctioned in the budget but remained unexpended at the end of the financial year were, of course, considered to have lapsed.[111]

The system of accounts was improved in minor details by the Commission of Enquiry into Indian Accounts in 1864. This Commission consisted of Foster and Whiffen—the former was the Assistant Paymaster General and the latter, the Deputy Accountant General to the War Department in England. The old system of accounts in India was "based on the commercial system of book keeping" with a view to ascertaining "the profit and loss of the Government in the commercial sense".[112] With a view to improving the system Sir Charles Trevelyan requested the Secretary of State to obtain the services of some English officials; after consulting Mr. Glandstone and Sir George Lewis, Trevelyan selected Foster and Whiffen.[113] Foster and Whiffen during their visit (1864-65) made a number of suggestions to recast accounts on the English model; their suggestions, relating to minor details of financial administration, improved the efficiency of the finance department.[114]

During the period under review the introduction of the budget system and the remoulding of the audit and accounts system created the infrastructure for a new financial system. And there is no reason to disagree with Mayo's encomium to the founders of the new system: "the men who were entrusted with the conduct of our finances were engaged in the arduous undertaking of adopting a good and sound, though highly complicated system, to a very rough state of affairs. A system of financial administration had to be created out of nothing".[115] Under the circumstances they succeeded remarkably well.

VI

The financial relations between the Central or Supreme Government and the local or subordinate governments underwent a radical change during the period under review. In the years 1858-61 the trend was towards centralisation of financial control. Between 1862 and 1868 the idea of decentralisation of finance gained ground and several plans were drawn up, though none of these plans was found entirely satisfactory. In the third phase, in the years 1869-72, decentralisation of finance was planned and implemented by Mayo, ably assisted by John Strachey.

At the time of the Mutiny the subordinate position of the local governments (including the Governorships of Bombay and Madras Presidencies) vis a vis the Supreme Government of India was clear. By Act of Parliament 'local' or Provincial Governments were precluded from creating new offices or granting salary or gratuity without previous sanction of Governor-General in Council.[116] The principle was established that no alteration was to be made in the number, designation or salaries of fixed establishments without sanction of the Supreme Government.[117] Yet Wilson, when he arrived in India, found that "the illdefined relations between the Supreme and subordinate governments—the latter always striving to encroach, the former to hold its own"—complicated financial administration.[118] The relations between the local and Supreme Governments were unsatisfactory because the latter had been given powers to control the smallest details of every branch of expenditure. But, since there was no budget system and the system of audit and accounts was weak, the Governor-General in Council could not exercise the power of financial control effectively. The extent and limits of the provincial government's financial powers were undefined. The Government of India was burdened with a task which it was not equipped to

perform efficiently and the local governments, having been denied financial responsibility, had no incentive to economise

James Wilson's aim was to make the financial control of the Supreme Government effective. The Budget system inaugurated early in 1860 ensured that specific sanction would be made (for each branch of service and each detailed head within each branch) and that local governments would not exceed the amount assigned without prior sanction of the Governor-General in Council. This principle was further elaborated by the Budget Committee. The method of appropriation audit and the new system of accounts strengthened the Supreme Government's control over expenditure. The rule precluding local government from altering the scale of salaries or adding to permanent establishment was reiterated; minor alteration in distribution of charges within a department was allowed provided prompt reports were sent to the Supreme Government.[119] In 1861 the Indian Councils Act restored to the Bombay and Madras Governments the power of legislation that had been taken away from them by the Charter Act of 1833. But the provincial legislatures were denied the power to make or take into consideration, without the previous sanction of the Governor-General, laws or regulations affecting the public debt of India, the Customs duties, any other taxes imposed by the Supreme Government, or currency, bills, notes etc.[120] Thus in 1860-61 the Government of India, equipped with the financial machinery created by Wilson, began effectively to control the subordinate governments financially The Government of India was not openly committed to a policy of financial centralisation. But this was how the tightening of financial control was interpreted by the subordinate governments who felt, perhaps for the first time, the full rigour of rigid and efficient central control. James Wilson was regarded as "the very apostle of centralisation".[121]

Sir Charles Trevelyan, Governor of Madras, firmly opposed

the policy of centralisation. Trevelyan thought that from the point of view of administrative convenience excessive centralisation was undesirable. In 1853 Trevelyan, in his evidence before the Select Committee on Indian Territories, had pleaded for reasonable freedom and discretion for subordinate Presidencies in financial matters, subject to general supervision of the Central Government. In 1859 Trevelyan once again urged the necessity of allowing some discretionary power to the provincial governments though he admitted that the budget allocations should not be exceeded. He was opposed to detailed specific sanction which subjected the subordinate Governments to the "humiliating necessity of making a separate application to Calcutta on every occasion on which any new expenditure, however trifling, was required . . ."[122] In his minute of the 12th May 1860, after pointing out the diversities of Indian revenue system and the impossibility of ruling distant parts from one centre. Trevelyan summed up his views : "This is not consolidation but the collection of incompatible functions into one unmanageable heap. The head is congested and the limbs are paralysed".[123]

These were objections on the ground of administrative convenience. Trevelyan went further and touched upon the constitutional aspect also. "Is it right that the President [i.e. Governor-General] in Council should, by a resolution suddenly promulgated without any previous consultation with the Local Governments, make such an organic change as this in the constitution of British India?" At a time when the Secretary of State had announced the intention of the government to give each Presidency a legislative council and leaving it to manage its own affairs a degree of centralisation was being introduced by Wilson that would increase the dependence of the provincial governments upon the central government. For financial centralisation would mean concentration of all effective authority in the hands of the central government : "*as*

finance is the strongest of all the elements of government it naturally absorbs and remoulds all the others . . . . . the great question of the constitution of Anglo-Indian governments must not be obscurely disposed of as an unnamed incident of financial arrangement".[124]

The questions raised by Sir Charles Trevelyan were important enough but the manner in which he argued his case, the publication of confidential government papers, the disturbance which his 'rebellion' triggered off, put him in the wrong. It was construed as a manifestation of parochial jealousy. The Governor-General rejected 'sectional principles and pretensions'. Lord Canning was totally in agreement with James Wilson: "I agree with all that you say as to bringing the whole of the finance of India under one central control".[125] He was determined to "uphold our own—I will not say—infallibility, but—unquestionability to the utmost".[126] Sir Charles Wood condemned Trevelyan's actions, especially the publication of official minutes, as "utterly subversive".[127] The recall of Trevelyan to England put an end to controversy for the time being.

In 1861 a plan for financial decentralisation was prepared by Samuel Laing, Wilson's successor in the office of Finance Member in Governor-General's Council. The necessity of constructing public works in every part of the empire and the desirability of avoiding excessive central interference in the details of public works expenditure were keenly felt: the Secretary of the Government of India in the Public Works Department had recommended "provincialising the finances of the country," and Laing sent a confidential circular to provincial governments outlining a plan for this purpose.[128] Laing pointed out that public works development apart, there would be other advantages of decentralisation: the provincial governments would have an incentive to economise in heads of expenditure under their control and it would "foster the spirit

of local selfhelp". By March 1861 the Regular Estimates of 1860-61 had made it clear that India was spending about Rs. 6 crores beyond her income.[129] The only solution was to increase salt duties immediately and to reduce the grants to provincial governments for public works. This reduction would severely hamper public works development. It was, therefore, proposed to make over to the provincial governments certain subjects for local taxation, by means of which they might raise a local revenue to supplement the shortfall in central grants for local public works. Thus, one of the main motives behind Laing's proposal was to relieve the finances of the Supreme Government of the heavy public works charges and to transfer a part of the burden to the provincial governments. Although the provincial governments were hard put to it to devise schemes for raising money by new provincial taxes, their response to the Laing scheme was not unfavourable.[130] But the scheme was not implemented immediately; the Government of India decided to wait till the provincial Legislative Councils were formed under the Indian Councils Act of 1861. In 1862-63 there was a surplus of income over expenditure of the order of Rs. 1.8 crores and the next year also produced a small surplus. The expedient of transferring some charges to the provincial governments was, therefore, shelved for the time being.

The plan was revived by the Finance Member, W. N. Massey, in 1866. In 1866-67 the expenditure of the Government of India exceeded its income by Rs. 2.5 crores and in the next two years there were deficits of about Rs. 1.6 crores and Rs. 4.14 crores. In this crisis the Government of India once again resuscitated the decentralisation scheme so that the provincial governments might share the financial burden with the Supreme Government. Two plans were drawn up: the first made by W. N. Massey in 1866 proposed that the provincial governments would take over certain heads of charges (till then

met from imperial revenue) and raise revenue by local taxes which they were left free to devise for themselves. The second plan, based on the suggestions made by Col. R. Strachey in 1867, proposed the transfer not only of certain heads of charges but also of some heads of revenue.

The first plan was simply an expedient to get rid of certain heads of charges (viz. education, police, jails, public works) and thus to reduce imperial expenditure by Rs. 1.2 crores.[131] Sir Cecil Beadon, Lieutenant-Governor of Bengal, pointed out that while local taxation for local improvements was desirable, local taxation to relieve imperial finance was not likely to be popular with local governments.[132] From Bombay Sir Bartle Frere wrote to Massey in his usual forthright fashion that he would agree to a transfer of heads of charges provided heads of revenue were also transferred. "But the case is far different when the liability is made over not only without any slice of imperial taxation to meet the charge, but with an order to apply to imperial purposes funds, for local purposes used heretofore".[133] E. Drummond, Lieutenant-Governor of North-West Provinces, and W. T. Denison, Governor of Madras, contended that the Massey scheme imported the English system of local finance without considering the Indian situation.[134] With the exception of the Governments of Punjab and Central Provinces all the local governments were unwilling to levy local taxes to pay for charges which were hitherto paid from imperial revenue. The Governor-General in Council confessed to the Secretary of State that there was "an almost universal hesitation, to use no stronger word", about accepting the transfer of charge without transfer of the means of meeting it.[135] Massey's scheme was, therefore withdrawn and the Government put forward another scheme next year.

The second scheme was devised by Col. R. Strachey of the Public Works Department. Massey suggested the decentralisation plan merely as a means of relieving imperial government

of some burdens.[136] Strachey pointed out the reasons why decentralisation was desirable irrespective of the question whether Indian Government was able to meet the charges from imperial revenue. (a) The existing financial relations between the provincial and the Supreme Governments were "demoralising" to the former. "The distribution of public income degenerates into something like a scramble in which the most violent have the advantage, with very little attention to reason."[137] The Local Governments clamour for as large a share of the imperial revenue as possible, they have no interest in increasing imperial revenue, and there is no incentive for economy of expenditure at the provincial level. Decentralisation of finance would instil in them a sense of responsibility since they would be responsible for raising the revenue to meet certain specific charges. (b) For the sake of harmonious relation between the provincial and Supreme Governments some measure of decentralisation was desirable. The constant interference of the Supreme Government in the provincial expenditure in detail and the resentment of the local governments against such interference led to friction.[138] This was a most frequent occurrence in the Public Works Department where Strachey worked.[139] (c) Finally Strachey drew attention to 'the extraordinary change which has taken place in the megnitude of the interests with which the Government of India has had to deal in the course of the last ten or fifteen years". The extension of the Government's sphere of activity and the enormous increase in revenue and expenditure had made the old system of central control obsolet.

"I should conceive", Strachey wrote, "that the financial position of the central authority should be degrees be brought to assimilate generally to that of the United States Central Government, though, of course, a power of supervision and control of a general nature must continue to be exercised over the finance of the separate local administration . . . ."[140]

To make a beginning, Strachey proposed, certain heads of charges (Law and Justice, Police, Education, Medical Service, Stationery and Printing) as well as a portion of imperial revenue might be transferred to the hands of the provincial governments.[141] The provincial governments would be exclusively responsible for meeting transferred charges; extra revenue may be raised for this purpose by local taxes. Increase of expenditure under transferred heads of charges in the future would be, it was expected, met with expansion of revenue from transferred heads of revenue supplemented with additional local taxes. Massey pointed out that the amounts of charges and revenue transferred were nearly equivalent.[142] This feature of the plan won over the provincial governments which had been less than enthusiastic about Massey's earlier plan (transferring heads of charges without transferring a portion of the revenue). With the exception of the Government of Madras all the local governments welcomed the decentralisation plan.[143] It seemed that the much-discussed decentralisation of finance would soon be implemented.

But the Governor-General, the Military Member of his Council, the Governor of Madras and a few others firmly opposed the decentralisation scheme. Their objections can be summed up under four heads. (a) It was feared that decentralisation would weaken the Indian Government's control which might be "irksome" but was very necessary. However unpalatable, the existing system, Major-General Sir H. M. Durand believed, was preferable to "disintegration".[144] (b) Another objection to the scheme was that the adoption of the scheme would shake the British capitalists' confidence in Indian investments. British capital would no longer be available for the development of the empire.[145] Lord Napier of Merchistoun, Governor of Madras, pointed out that "the Supreme Government [of India] possessed a degree of credit in the English money market about equal to that of France or the

United States of America"—and this credit may be jeopardised in case of "federalization" of finance.[146] (c) It was apprehended that provincial governments might ignore imperial interests. There was need for firm control by a Central Government "disposing of the financial resources of a whole Empire and animated by a higher law than the nice computations of a provincial revenue board".[147] Lawrence had drawn a dark-picture of what might happen if decentralisation took place : "Every local Government and administration will follow its own course and, year by year, the divergence in systems between one and the other will become greater".[148] If the Supreme Government gives up financial control it was giving up control over much else. Almost every administrative decision, when practically implemented, had a financial implication and if the local governments were not required to ask sanction for that, they would not refer the question to the central Government at all. (d) Finally, the critics of the scheme pointed out that the federalization of finance under the existing political system in India was quite different from the federal finance system of the U.S.A. Unlike the latter country India did not possess democratic representative bodies to control the provincial governments.[149] To the tax-payers it made little difference whether tax was collected by the authority of the central or the provincial government. As the Board of Revenue of Madras put it pithily, it was incorrect to suppose "that by merely terming a tax 'local' instead of 'imperial' renders it less a tax in the eyes of the people or invests it with any peculiar degree of acceptability or facility of imposition".[150]

On these grounds the scheme of decentralisation of finance was rejected. The opinion of the Governor of Madras and the Military Member of the Governor-General's Council could not be ignored, and although the majority of the local governments as well as the majority of members of the Council were in favour of the scheme, the Governor-General made up his

mind not to implement the scheme prepared by Strachey and Massey. Governor-General Lawrence (who was, perhaps, deeply influenced by the experience of the Mutiny) was unwilling to weaken the central authority by conceding even a small measure of decentralisation. Nothing further was done in this direction till Mayo took up the question once again in 1870.

"I hope that horrid slang decentralisation of finance will now disappear", Mayo wrote in 1870 to Sir S. Fitzgerald.[151] It was just an aversion to a neologism. Mayo was fully committed to the policy of financial decentralisaiton, but he preferred the term "local finance" because he was inclined to think that 'decentralisation' suggested a weakening of control. "We do not admit", he wrote in 1871, after his local finance measure was implemented, "that we have decentralised finance or renounced one single particle of efficient control . . . ."[152]

Within a few months after his arrival Mayo realised that there was excessive interference in purely local matter by the Supreme Government.[153] On the other hand the provincial governments, especially that of Bombay, showed "a great impatience of control" and "lamentable inclination to conflict".[154] The officials of the provincial governments "write letters to their friends in England and grumble and growl at the clubs".[155] Relations between the provincial governments and the Supreme Government were far from smooth. A scheme must be devised to "lessen friction and produce better feeling", to give the provincial governments "greater responsibility and diminish correspondence".[156]

Such a scheme would, Mayo believed, be advantageous from the fiscal point of view. Provincial authorities would determine how "the growing wants of these people could be most easily provided for".[157] Mayo in one of his letters to Napier, persuading him to agree to financial devolution, wrote: "Everyone sees that increased taxation is necessary for our

daily increasing wants and that it had better come in the shape of local contribution combined with largely increased local independence and responsibility than in an Imperial shape".[158] Moreover, local finance system would promote economy of expenditure. Mayo intended to make it obligatory for the local gevernments to publish their budgets and submit annual financial statements to the Supreme Government as well as to the provincial Legislative Council (where such a Council had been formed).[159] "I think the publicity which must arise as to the local budgets," Mayo wrote to Fitzgerald, "and the feeling that men are spending their own money will create a far severer check than could be exercised by the Governor-General".[160] There was much wasteful expenditure in some branches—roads, minor buildings and jails construction, education, police etc.—which no authority but the local government could efficiently control.

On political grounds also a system of local finance was preferable to a centralised system. "We must associate with ourselves in the government of this country more of the native element. We have neglected this too much . . . . It can only be a work of time; and as in other countries, to the growth of municipal institutions has generally been traced the development of the powers of selfgovernment so in India do I believe that we shall find the best assistance from natives in our administration . . . . . by quietly entrusting as many we can with local responsibility, and instructing them in the management of their own district affairs . . . ."[161] Mayo intended to create "native municipal institutions"[162] and to admit Indians "to greater share in the management of local funds".[163] Creation of a new model of municipal government would take time ; what could be immednately done was to ensure that annual financial statements were made to the provincial legislative body (where they existed) in the same manner as

the imperial budget was presented in the Imperial Legislative Council.[164]

These ideas were not remarkable for their originality : the advantages of decentralisation of finance had been pointed out by Laing, Strachey, Massey and others. But Mayo succeeded where others had failed. Mayo knew that "provincial jealousy and narrow mindedness" had stood in the way of reform.[165] He took great care to win over all the heads of governments and important officials ; he was a prolific letter writer and his steady persuasion and pressure broken down all resistance. The bulk of his correspondence with Lord Napier of Marchistoun, Sir S. Fitzgerald, Sir W. Muir, Sir B. Frere, W. Arbuthnot—portions of which have been quoted above—deal with the decentralisation question. Mayo did not receive much assistance from the Finance Member of his Council, Sir R. Temple. The latter had prepared a scheme in 1868 envisaging relaxation of the Supreme Government's control over the details of establishment and conceding to Madras and Bombay Governments a very limited degree of independence.[166] Mayo confided to Argyll that Temple's plan practically "would involve a change more in name than in reality".[167] Mayo was unwilling to act on Temple's suggestions and let the matter rest for the time being. In 1870 Mayo prepared his own scheme and, with minor alterations, this scheme was adopted, despite "much opposition from Temple" in the Council.[168]

Mayo's scheme, outlined in his minute of June 1870, was elaborated in the Financial Secretary's circular to provincial governments in August 1870 and was finalised and adopted by the resolution of the Governor-General in Council on the 14 December 1870.[169] The main features of the scheme were as follows : Several departments of administration were transferred to the provincial governments : jails police, registration, education, medical services (except medical establishments), printing, roads, civil buildings and miscellaneous public im-

provements. The charges for these branches were to be met by the provincial governments from (a) departmental receipts under these heads, (b) a fixed lump assignment granted permanently from annual imperial revenue for these provincial services, (c) and, if any deficiency occurred, local taxation.[170] The assignments, appearing as 'provincial services' in the imperial budget, would be at the disposal of the provincial governments and would be fixed and unalterable. Certain conditions were imposed on the provincial governments. One set of conditions was meant to ensure publication and checking of accounts and estimates to prevent improper use of funds or wasteful expenditure. The provincial governments were required to publish their annual estimates and accounts in the provincial gazette and to submit to the provincial legislative bodies (where they existed) a financial statement like the imperial budget presented in the Legislative Council. The provincial governments were also expected to submit account and estimates of each year to the Government of India. Another set of conditions reserved to the Supreme Government power of general financial control. Prior sanction of the Supreme Government must be obtained by the provincial governments in all questions involving change in the salary scale of any grade of officers, creation of appointments with a salary exceeding Rs. 250, change in imperial service rules regarding leave and allowances, and investment of money in the public treasury. The Governor-General in Council reserved the right to intervene in the administration of the transferred branches and disbursement of transferred funds, in order to correct deviation (on the part of a provincial government) from the general policy of the Government of India, or violation of the conditions. The provincial governments gave their consent to this arrangement though the fact that the assignments from imperial revenue were small and permanently fixed caused some misgivings.[171]

The scheme of decentralised finance was in operation from the financial year 1871-72. The experience of the next few years exposed serious flaws in the system devised by Mayo. The provincial governments were assigned fixed sums to meet the transferred provincial charges. As the expenses in the transferred departments (particularly education, roads, police and public improvements) increased the provincial governments found it more and more difficult to meet the charges. Thus decentralisation enabled the Central Government to cut down expenditure, but imposed on the local governments the difficult task of raising additional revenue by local taxes. Mayo believed that "if people see that additional sums are levied for their own benefit and for their own benefit only", they would begin to "lessen their objections to payment".[172] The provincial governments, however, found it far from easy to devise local taxes which would bring to the treasury sufficient revenue: public opinion was against proliferation of taxes. Argyll very correctly pointed out that local taxes were not likely to be more popular than imperial taxes if both were "imposed by a government and without reference to the feelings and opinions of the people".[173] Public opinion, it seems, reacted strongly against the local tax measures proposed in 1871-72 such as octroi duty and house tax in Bombay city, road and education cess on land revenue in Bengal, and various local taxes in the North-West Provinces.[174]

Less than one-tenth of the total revenue of Indian Government was given to the provincial governments. There was no provision to maintain a due proportion between central and local funds. There was a great deal of heart-burning about the iniquity of distribution of funds among provincial governments. When Napier, Governor of Madras, complained about this Mayo wrote: "if that question is raised on the part of Madras you will surely find that there is not a province in India that will not be able to make out in their opinion just

as good a case as Madras can for more money . . . each in its own way will be able to show to its complete satisfaction that the other gets too much.".[175] This was true, but it was also a fact that the allotment to the different provinces was on the basis of past records of distribution, and not on the basis of an estimate of present or future requirements.

Moreover, the provincial governments were not given branches of administration in which they were primarily interested e.g. General Administration, Land Revenue and Excise. "They had no interest in the adequate development of their existing revenues since any increase in this respect would be entirely for the benefit of the Government of India alone".[176] Sir Charles Trevelyan thought that this was the conclusive objection to the Mayo scheme. The functions of the local governments, he said, could not be rigidly defined; but the Government of India had certain functions affecting imperial interests in branches like the army, external relations, public debt and the postal service; these functions should have been defined and annual appropriation made for them, leaving the residuary functions and remaining balance of the revenue to the provincial governments.[177]

Mayo assumed that decentralisation of finance would provide a school for self-government and educate the Indians by associating them with Europeans in the provincial and municipal institutions. The Secretary of State was under the impression that the Government would "secure the general concurrence of the local communities in the measures taken on their behalf".[178] Actually, the measures of 1871-72 merely meant transfer of some heads of revenue and charges to the provincial governments. Decentralisation was not accompanied by real local self-government by means of municipalities and local boards. Upto 1881 there was no elective element in municipalities: the local bodies were dominated by the official members.[179] Sir Charles Trevelyan pointed out that real

decentralisation ultimately leads to "a representative system": "when that end has been attained, the masters and teachers may be allowed to take their leave without any injury to the country".[180] We can hear a muffled echo of these words in the memorandum submitted by the leading "native" association, the British Indian Association.[181] The memorialists were of opinion "that each province should be treated as an integral state" and "the people should be invited to take a practical part as much as possible in administration". After meeting some imperial charges, such as the army, public debt and the home charges, the residue of the revenue should be left to the provincial governments and the Central Government should only exercise a general supervision. Both the Anglo-Indian and the "native" Press clamoured for a greater degree of decentralisation.[182] It was felt that the Mayo scheme was a step in the right direction but did not go far enough. It was only a stage in the progress towards a system of federalised finance. As for the "representative system" which Trevelyan spoke of, to the majority of the administrators of the Empire it was no more than a remote possibility. In the high noon of imperialism a figure like Trevelyan cast only a small shadow.

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7 Secretary of State to Government of India Fin. No. 122, 2 Aug. 1861. Government of India ot Secretary of State Fin. No. 170, 23 Sept. 1861.

8 Secretary of State to Government of India Fin. No. 196, 16 Dec. 1861.

9 Secretary of State to Government of India Fin. No. 63, 17 March 1864.

10 Government of India to Secretary to State Fin. No. 63, 26 May 1864.

11 Secretary of State to Government of India Fin. No. 227, 26 Sept. 1864. Another point raised by C Trevelyan, the Finance Member, was that other Colonial Governments were not subject to such control The Secretary of State pointed out that by Sec. 346 & 367 of Rules and Regulations for Her Majesty's Colonial Service restrictions on colonial governments (not possessing representative assemblies) were equally stringent.

12 *loc. cit*

13 One result of rapid communication was that the press and the businessmen often obtained information quickly while the cumbrous official communication system lagged behind. Mayo to Argyll, 13 Nov 1870, Mayo Papers, bundle 41, no. 311.

14 Lord Cranborne *Hansard,* 3rd Ser. CXCIV, 1074; CXCVI, 700 cited A B Keith *A Constitutional History of India* (London, 1936), p 168. Sir C. Ilbert *The Government of India* (Oxford, 1922) p. p. 105.

15 C. Wood to Lord Canning, 9 Jan. 1861. Wood Papers, I.O.L. vol 6, p 14, cited C H Philips (Ed) *The Evolution of India and Pakistan 1958-1947 Select Documents* (Lond 1962), pp. 11-12

16 C Wood to B. Frere, 17 Sept 1860. J. Martineau *The Life and Correspondence of Sir Bartle Frere* (London, 1895), I. p 353.

17 This was the considered opinion of Canning and Bartle Frere who cannot by any means be called ultra-radicals. B. Frere to

Sir C. Wood 22 Oct. 1860 *ibid* p. 355; Lord Canning to Sir C. Wood 24 Oct. 1860, *ibid* p. 358.

18 Mayo to Argyll 22 July 1870 Mayo Papers, bundle 40, no. 208. Mayo commented that although the proposal was excellent, "I suppose it would be too shocking to put a district officer of 25 years experience, whose life had been spent in tents and hot cutcherries, besides Lt. Governors & Governors & Ex-Magnates of various kinds......"

19 S. Northcote to J. Lawrence, 9 Feb. 1868. Lawrence Papers, Secretary of State to J. Lawrence, Vol. V no. 5.

20 Henry Fawcett, M.P., Professor of Political Economy in the University of Cambridge, *Indian Finance* (London, 1880) p. 115. On the average M.P.'s ignorance about Indian finances vide Mayo's letter to Northcote, 3 Mar. 1871, Mayo Papers, bundle 48, no 61

21 The debate in Parliament on Indian finances, the *Hindoo Patriot* (31 Aug. 1868) commented, was "a farce"; the debate on the financial statement of 1868 was attended by 30 out of 630 M P.'s. The *Englishman* (3 Aug. 1870) declared that since Indian financial questions were neglected in Parliament India must be governed in India. The cry, 'India must be governed in India' was always a popular one. (*Friend of India* 11 Sept. 1862)

22 *Vide* Sabyasachi Bhattacharyya 'Laissez Faire in India'. *The Indian Economic and Social History Review* Vol. II, no. 1. Jan 1965, pp. 1-22.

23 See below Chapter III.

24 See below Chapter III.

25 Mayo to S. Northcote 16 Nov. 1870, Mayo Papers, bundle 41, no. 315.

26 *loc. cit.* 'Qui Hyes', i.e. 'Koi hai' or Ex-Anglo-Indians, accustomed to call their servants 'Koi hai' (who is there?).

27 Mayo to Argyll 18 Jan. 1871, Mayo Papers, bundle 42, no 24.

28 Mayo to S. Northcote, 16 Nov. 1870, Mayo Papers, bundle 41, no. 315.

29 R. Temple to O. T. Burne, 25 July 1871, Mayo Papers, bundle 61 (no number). The tone of the questions in the Select Committee to members and servants of the Indian Government "was overbearing and objectionable . . Many of Mr. F's [Fawcett's] questions so called are not questions at all, but are backhanded cuts at the Government of India!"

30 Argyll to Mayo 16 Dec. 1870, Mayo Paper, bundle 48, no. 34.

31 Mayo to B. Disraeli 9 May 1871, Mayo Paper, bundle 43, No 100. Argyll to Mayo, 4 May 1871, Mayo Papers, bundle 49, no. 10.

32 Richard Temple, *Men and Events of my Time in India* (London. 1882) p. 187.

33 J. Wilson to Eliza Wilson 21 July 1859 and J. Wilson to Lord Canning 25 Aug. 1859. E. Barrington *op. cit.*, vol. II, p 181.

34 A. B. Rudra *The Viceroy and Governor-General of India* (O.U.P 1940) pp. 64-65.

35 This was, according to Argyll, also the opinion of Gladstone and Sir Carles Wood (Lord Halifax). Argyll to Mayo, 1 Oct. 1870, Mayo Papers, bundle 48, no. 26.

36 Argyll to Mayo 1 Nov. 1871, Mayo Papers, bundle 49, no. 19.

37 B. Frere to Lord Canning 11 June 1861. Martineau, *op cit.*, 1, pp. 326-7. This was also the opinion of Mayo: "The financial members sent from home have not I think (with one exception) achieved any decided success." Mayo to Argyll 14 July 1870, Mayo Papers, bundle 40, no. 202.

38 B. Frere to Sir C. C. Wood 23 Nov. 1860, Martineau *op. cit.*, I, p. 313.

39 *Hindoo Patriot* 16 Feb. 1868. Editorial entitled 'The New Finance Minister'

40 *loc. cit.* In 1872 the *Hindoo Patriot* suggested that a Hindoo finance member should be appointed. "A perfect knowledge of the habits of the people, of their ways and means, of their prejudices, if you please, would prevent all danger of devising unsuitable, oppressive and unproductive taxes . . ." *Hindoo Patriot* 16 Dec. 1872.

41 Argyll to Mayo 1 Nov. 1871, Mayo Paper, bundle 49, no. 19.

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43 Secretary of State to Government of India Fin. no. 96, 30 Sept 1859.

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45 Mayo to Sir W. Mansfield 11 March 1869, Mayo Papers, bundle 34, no. 89.

46 Fin. Progs. Oct. 1868 Sep Rev. no. 32. Minute by W. R. Mansfield, 28 August 1868.

47 Fin. Progs. Apr. 1868 Accts. no. 82, Minute by W. R. Mansfield, 5 Apr. 1868.

48 Mayo to Argyll 9 Jan. 1871, Mayo Papers, bundle 42, no. 13.

49 Vide Editorial entitled 'The Council becomes a Cabinet' *Friend of India* 1 August 1861.

50 S. Northcote to J. Lawrence 9 Jan. 1868, Lawrence Papers, Letters from Secretary of State, vol. V, no. 1.

51 S. Northcote to J. Lawrence, 9 Feb. 1868, Lawrence Papers, Letters from Secretary of State, vol. V, no. 5.

52 Sir Courtenay Ilbert *The Government of India* (London, 1922) pp. 90-92.

53 Vide infra Chapter Three.

54 Bartle Frere to Sir C. Wood 10 Apr. 2861. Martineau *op. cit.*, I, p. 336.

55 Sir C Wood to B. Frere 9 June 1861 and 18 Feb. 1861. Quoted by Martineau *op. cit.*, I, pp. 330-336. The criticism in the Legislative Council in regard to grants to the Mysore princes caused embarssment to the government. L. C. Progs. (Old Series) vol. VI, 1860, pp. 1343-1402.

56 B. Frere to C. Wood 10 Apr. 1861, Martineau *op. cit.*, I, p 336.

57 C. Wood to B Frere. 17 Aug. 1861, Martineau *op cit.*, I, p. 343.

58 "For purposes of legislation the Governor-General's Council was reinforced by additional members, not less than six not more than twelve in number, nominated by Governor-General for two years Of these additional members, not less than one-half were to be non-official, that is to say, persons not in the civil or military service of the Crown" C. Ilbert *op. cit.*, p. 100.

59 C. Ilbert, *op. cit*, p. 107.

60 Vide infra Chapter on 'Public Opinion'. *Hindoo Patriot* 5 Sept. 1860, 6 Mar. 1868, 6 Apr. 1868, 21 Feb. 1870, 11 July 1870, 10 Apr. 1871. *Som Prakash* 9 Mar. 1868 R.N.P (Bengal) 1868, p. 107. *Jam-e-Jamsed* 15 Feb 1869, 10 Mar. 1869. R.N.P. (Bombay) 1869, pp. 94, 133. Fin. Progs. July 1860, no 26 Secretary, British India Association to Secretary, Government of India 22 May 1860. Fin Progs. Apr. 1868 no. 34. Secretary, British India Association to Secretary, Government of Bengal 3 Feb 1868. *ibid* no. 35 Petition of British India Association to Secretary of State 1 Feb 1868.

61 C. Trevelyan's Minute 20 Mar. 1860 P.P.H C. 1860, vol. 49, p 112. It should be noted that Trevelyan is speaking of the state of affairs before the passing of the Indian Councils Act, 1861.

26 Fin. Progs. Apro 1867. Rev. No. 21. Government of India to Secretary of State 20 Apr. 1867.

[63] *loc. cit*

[64] Secretary of State to Government of India Fin. Despatch no 96, 30 Sept. 1859

[65] Government of India to Secretary of State Fin. Despatch 26 Nov 1859, Secretary of State to Government of India Fin. no. 33, 24 Feb. 1860.

[66] Home Progs : Public 11 March 1861 no. 55. Resolution by Government of India 11 March 1861.

[67] Home Progs Public. 11 March 1862 no. 7. Resolution by Government of India 11 March 1861.

[68] Home Progs. Public 6 Nov. 1863 no. 14 cancelling the orders of March 1862 ordering the Home Secretary to control 'stamps' and 'customs' branches.

[69] *loc cit.* Some provinces, viz. Punjab, Oudh, Central Provinces and British, Burma, did not come under the purview of this change till September 1864. Home Department continued to control as usual Post Office, Telegraph and Land Revenue.

[70] Secretary of State to Government of India Fin. no. 1, 8 Jan. 1863 ; Government of India to Secretary of State, Mily Despatch no. 132, 19 March 1864.

[71] Secretary of State to Government of India Fin. 156, 30 June 1864.

[72] Secretary of State to Government of India Fin. no. 161, 30 June 1865.

[73] Home Progs. Public. December 1867 no. 78 Minute by Mily. Secretary, H. W. Norman 20 September 1867.

[74] Home Progs. Public Dec. 1867. no. 60. Note by E. C. Bayley, Secy. in Home Dept.

[75] Secretary of State to Government of India Fin. no. 96, 15 Apr. 1865.

[76] Home Progs Public, December 1867. no. 62. Note by Col. C. H. Dickens, Secretary, Public Works Department 21 Nov. 1867.

[77] Mayo to Argyll 6 Apr. 1870, Mayo Papers, bundle 39, no 100. Same to same 22 July 1870, Mayo Papers, bundle 40, no. 208.

[78] Fin. Progs. Apr. 1865 Exp. no. 81. Note by E H Lushington, Fin. Secy 18 Feb. 1865. *Friend of India* 15 May 1862.

[79] Government of India to Secretary of State Fin. no. 55, 20 March 1865. In the period 1862-65 only one probationer was recruited to financial department. Fin. Progs. Apr. 1865, Exp. no 81. Note by Financial Secretary 18 Feb. 1865.

[80] Secretary of State to Government of India Fin. no 141, 16 June 1865.

81 Fin. Progs. Apr. 1865. Exp. no. 82 Note by E H. Foster, 20 Feb. 1865.

82 Edward Hughes, 'Sir Charles Trevelyan and Civil Service Reforms 1853-55' *The English Historical Review* vol. LXIV, 1949, pt. I. p. 53, pt. II. p. 206. Fin. Progs. Apr. 1865, Exp. no 83, Minute by C. E. Trevelyan, 23 Feb 1865.

83 *ibid* no 81, Note by E. H. Lushington, Financial Secretary, 18 Feb. 1865.

84 *loc. cit.*

85 *loc. cit.*

86 Fin. Progs. Apr. 1865 Exp. no. 83, Minute by C. E. Trevelyan, 23 Feb 1865.

87 Mayo to B. Frere 6 Dec 1869, Mayo Papers, Bundle 37, no 345; Mayo to Argyll 2 Oct. 1869. Mayo Papers, bundle 37, no. 265.

88 Fin. Progs. 17 Aug. 1860 Accts. no. 93(a).

89 *loc. cit.*

90 J. Wilson to W. Bagehot, 19 July 1860, quoted by W. Bagehot *Literary Studies* (London, 1879), vol. I, p. 401. The Mutiny had exposed the financial weakness of the old system and showed that "little progress had been made towards framing of an intelligent and provident system, reliable estimates of future expenditure, especially in the Military department . They (pre-1860 estimates) were consequently always in error when the rate of expenditure was constantly varying, and this result was aggravated by the general confusion caused by the Mutiny" Government of India to Secretary of State, Fin no. 132, 9 July 1861.

91 Fin. Progs Dec. 1860. no. Minute of the Governor of Madras, C. E Trevelyan dt. 12 May, 1860. In his minutes dated 25 May, 1859 and 13 July, 1859 Trevelyan suggested the application of the English budget system to Indian finances; with his long experience in the British Treasury, Trevelyan was as much familiar with the English financial system as Wilson.

92 Fin. Progs. 4 May 1860, no. 13 Resolution of the Government of India in the Finance Department, 7 Apr. 1860.

93 *ibid.*

94 *ibid* Fin. Progs. 4 May 1860, no. 14 Memorandum from Accountant-General to Financial Secretary.

95 Fin. Progs. 11 May 1860, no. 26. Resolution by Government of India, 11 May 1860.

96 Fin. Progs. 18 Aug. 1860. no. 93a Report from Budget Committee, 30 July 1860.

97 *loc. cit.*

98 *ibid.* Resolution by Government of India in Financial Department. 18 Aug. 1860. The Auditors all over India would conduct preliminary detailed audit and the Auditor-General the final appropriation audit; the Local Accountants would be responsible for check and adjustment of accounts, with the additional duty of supplying the Auditor-General with returns for final audit. The civil Auditors would become Pay Masetrs to their respective local governments and would regulate movement of funds to meet the requirements of several treasuries; each Pay Master would account to the Finance Department and each disbursing officer or dept. would account to the Pay Master.

99 Secretary of State to Government of India Fin. No. 140, 14 Sept. 1860.

100 Government of India to Secretary of State Fin. 208, 20 Oct. 1860; Secretary of State to Government of India Fin. 52, 8 Apr. 1861.

101 Fin. Progs. 14 Nov. 1860. Report (6th) from Budget Committee 27 Oct. 1860. Resolution of Government of India in Financial Department. 15 Nov. 1860. While estimate forms for purposes of Indian accounts were changed, the forms of accounts submitted could not be substantially changed on account of the opposition of the Secretary of State; the latter wanted to keep the systems of classification of heads of charges unaltered as far as possible so that figures of past years could be compared Government of India to Secretary of State Fin. no. 171, 25 Sept 1861. Secretary of State to Government of India Fin. no 68, 8 May 1862, and Fin. no. 31, 25 Feb. 1863 From 1860, apart from submitting accounts as required by Government of India Act 1858 the Governor-General in Council also regularly submitted to Secretary of State a despatch explaining causes of variation between estimated and actual revenue and expenditure; this was not published unlike the return on accounts which were submitted to parliament. Government of India to Secretary of State Fin no. 80, 4 Apr. 1860.

102 This was convenient, according to one view, because the shipping season came to a close at the end of April with the outbreak of the south-west monsoon

103 Government of India to Secretary of State Fin no. 223, 27 Sept. 1870.

104 Government of India to Secretary of State Fin. no. 89, 19 Apr. 1866.

105 Secretary of State to Government of India Fin. no. 154, 25 June 1868, Secretary of State to Government of India Fin. no. 431, 14 June 1869, Government of India to Secretary of State Fin. no. 87, 29 Mar. 1870.

106 When Argyll speaks of the desirability of making the financial year "coincident with the nature year" he is probably referring to the harvest cycle. Argyll to Mayo 9 Aug. 1870, Mayo Papers, bundle 48, no. 23.

107 Fin. Progs. June 1865. Accts. no. 83. Circular from Finance Department, Government of India, to Auditor and Accountant General of India and Local Accountants 9 June 1865.

108 Fin. Progs Jan. 1869. Accts no. 14, E. H. Lushington, Financial Secretary, to all Accountants General of subordinate governments, 14 Jan. 1869. Fin. Progs Oct. 1869 Accts. no. 46. Circular from Government of India to all Accountants General, 21 Oct. 1869. If a local Government's estimates were not received by the Government of India by the 1st of January of the financial year preceding that year for which budgets were being complied, the Finance Department of Indian Government itself constructed budget estimate for that local government.

109 It was the task of the local Accountants General to prevent and to report to the Supreme Government deviation from budget allotments Fin. Progs. May 1869 Accts. no. 55. Financial Secretary, Government of India, to all Accountants General 25 May 1869.

110 Fin. Progs. May 1869 Sep. Rev. no. 34 Governor-General of India to all Heads of Local Governments, 13 May 1869.

111 Fin. Progs. May 1863 no. 15 Financial Secretary to Auditor General of Government of India 6 May 1863.

112 Fin. Progs. Apr. 1868 Accts. no. 26 Memorandum by Comptroller General of Accounts, 25 Mar 1867.

113 Fin. Progs. March 1863 Miscell. no. 1 Minute by C E Trevelyan, 11 Feb 1863, Government of India to Secretary of State Fin. no. 32, 4 March 1863. Secretary of State to Government of India Fin. no 131, 25 July 1863.

114 Fin Progs. May 1865 Accts no. 113, Resolution by Government of India in Fin. Dept. 20 Sept 1865 Fin Progs. June 1865. Exp no. 246 M. H. Foster to Financial Secretary, 27 May 1865. In 1866 a new system of railway audit was established; three Royal Engineer Officers (with a staff of assistants) were appointed

as examiners of railway accounts in Bengal, Bombay and Madras; final auditing was done at the central public works and Finance Department. Government of India to Secretary of State Fin. no. 215, 28 Sept. 1866. Appropriation audit of railway accounts was introduced in 1867 Government of India to Secretary of State Fin no 9, 8 Jan 1867. Mayo was far from successful in his effort to improve railway auditing Government of India to Secretary of State Fin. no 75, 29 Apr. 1871.

115 Mayo to Bartle Frere 6 Dec. 1869. Mayo Papers, bundle 37, no. 345.

116 3 & 4 Will IV Cap. 85, Sec. 59.

117 Regulation V of 1804, Sec 23.

118 J Wilson to W. Bagehot, 19 July 1860. Barrington *op. cit.*, II, p. 303.

119 Fin. Progs. 8 May 1861 no. 7; 23 July 1861 no. 158; Home Progs. 30 Oct. 1862, Public (B) no. 211-13.

120 24 & 25 Vict. Cap. 67 Sec. 42.

121 *Friend of India* 2 May, 1861.

122 Fin. Progs Dec. 1860. p. 3089 Sir C. E. Trevelyan's Minute dt 13 July 1859.

123 Fin. Progs. Dec 1860, Accts. no. 2 Sir C. E. Trevelyan's Minute 12 May 1860.

124 *loc. cit.*

125 Canning to J. Wilson, 23 Apr. 1860, Barrington *op cit.* Vol. II, p. 263.

126 Canning to J Wilson, 24 July 1860, Barrington *op cit.* Vol. II, p 301.

127 Secretary of State to Government of India, Fin no. 74, 10 May 1860.

128 Fin. Progs. 16 Mar. 1861, Accts. no. 198-204.

129 Fin. Progs. 16 Mar. 1861, Accts no. 197, C. H. Lushington, Financial Secretary, Government of India to Secretary, Government of Bengal, 16 Mar. 1861.

130 P. N. Banerjee *Provincial Finance in India* (London, 1929) pp 23-27. In this book the extracts from documents collected by J F Finlay (*History of Provincial Financial Arrangements*, Calcutta, 1887) are reproduced.

131 Fin. Progs Oct 1867 Accts no. 22. W. N. Massey to Governor, Lt. Governors and Chief Commissioners 21 Feb 1866.

132 *ibid* Accts. no. 22, C Beadon to W. N Massey, 8 Mar. 1867.

133 *ibid* B. Frere, Governor of Bombay, Minute dt. 15 Nov. 1866,

134 *ibid* E. Drummond, Lt. Governor of the North-West Provinces to W. N. Massey 8 Mar. 1866. Minute by W. T. Denison Governor of Madras 23 Mar. 1866.

135 Government of India to Secretary of State Fin. no. 209, 19 Sept. 1867

136 W N Massey to John Lawrence 10 Feb. 1866; same to same 12 Feb. 1866 Lawrence Papers, Letters from Members of Council, vol. 2, 1866. nos 8 and 8A.

137 Fin. Progs. Oct. 1867 Accts. no. 23. Note by Col. R. Strachey 17 Aug. 1867.

138 One instance of such friction was the much published quarrel in 1864 between B. Frere, Governor of Bombay, and C. Trevelyan of the Govern-General's Council on the question of public works expenditure in Bombay. Sir Charles Wood, the Secretary of State, observed at that time: "I think that the Government of India must exercise strict *general* control over the finances" but it must not lose itself in the minute of petty work everywhere C. Wood to J. Lawrence 17 Oct. 1864. Lawrence Papers, Letters from Secretary of State, Vol. I, no. 56. Under the existing laws regulations however, continual interference by the Supreme Government was inevitable.

139 Home Progs Dec. 1867 Public no. 62, Note by Col. C. H. Dickens, Secretary, Public Works Department. 21 Nov. 1867. The rules required the local governments to obtain previous sanction of Governor-General in Council for the smallest items of expenditure; these rules, framed before the new system of budget and audit was established, were at one time necessary checks but had become a nuisance.

140 Fin. Progs. Oct. 1867 Accts. no. 23 Note by Col. R. Strachey 17 Aug. 1867.

141 The proportion of revenue to be transferred to provincial governments would be: one-sixteenth of the land revenue, one-fourth of the proceeds of the income tax, and one-fourth of the licence tax. According to the Strachey scheme the charges transferred to Local Governments totalled £ 1.6 million, and the transferred revenue totalled £ 8.8 million, leaving £ 1.2 million approximately for local public works.

142 Fin. Progs Oct. 1867 Accts no. 26. Memorandum by W N. Massey, 17 Aug. 1867.

143 Fin. Progs. Apr. 1868 Accts no 36. Secretary to Chief Commissioner, Central Provinces to Financial Secretary, Government of

India, 22 Oct. 1867 *ibid* no 39, Minute by Lt Governor of North-West Provinces transmitted to Government of India dt. 21 Nov 1867. *ibid* no. 40, 44 & 45 Letters from Governments of British Burma, Oudh and the Punjab. Most of the Local Governments were of opinion that the scheme was a step in the right direction but did not go far enough

144 Fin Progs Oct 1867 Accts. no. 74, Minute by H. M. Durand 7 Oct 1867.

145 *loc. cit.*

146 Fin Progs. Apr. 1868 Accts. no 48, Minute by the President of Council of Fort St. George 15 Feb. 1868.

147 *loc. cit.*

148 Fin. Progs. Oct. 1867, Accts. no. 73, Minute by Governor-General 27 Sept. 1867.

149 Fin. Progs Oct 1867 Accts. no 73, Minute by Governor-General, 27 Sept. 1867.

150 Fin Progs Apr. 1868 Accts. no 48, Secretary to Board of Revenue to Chief Secretary, Government of Fort St. George 27 Jan. 1868.

151 Mayo to S Fitzgerald 20 Aug. 1870, Mayo Papers, bundle 40, no. 239.

152 Mayo to W. Arbuthnot 15 Mar 1871, Mayo Papers, bundle 42, no. 68.

153 Mayo to W Arbuthnot 13 Sept. 1868, Mayo Papers, bundle 33, no. 6.

154 Mayo to Argyll 31 Jan. 1869, Mayo Papers, bundle 34, no. 23.

155 Mayo to B. Frere 6 Feb. 1869, Mayo Papers, bundle 37, no. 345.

156 Mayo to Sir S. Fitzgerald 16 Nov 1869, Mayo Papers, bundle 37 no 313.

157 Fin. Progs. Jan 1871, Accts. no 22, Minute by Governor-General 23 June 1870.

158 Mayo to Lord Napier of Merchistoun, 13 Mar. 1870. Mayo Papers, bundle 35, no. 74.

159 Fin. Progs Jan. 1871 Accts. no. 22 Minute by Governor-General 23 June 1870

160 Mayo to S Fitzgerald 5 Jan 1870, Mayo Papers, bundle 42, no. 10

161 Mayo to H. Durand 29 Apr. 1870, Mayo Papers, bundle 39, no 107.

162 *loc. cit.*

163 Mayo to Sir W. Muir 2 Sept. 1870, Mayo Papers, bundle 40, no. 255.

164 *loc cit.*

165 Mayo to Argyll 10 Apr. 1871, Mayo Papers, bundle 43, no. 91.

166 Temple suggested (Minute of 7 Nov. 1868) that Governments of Madras and Bombay might be allowed, after reserving their existing contribution towards imperial charges, to dispose of the remaining revenues and charges within their jurisdictions. Central control over establishments would relax but control over higher salaries and general scales of pay would remain. Virtually the scheme meant that some one-sixth of the revenue would be handed over to Presidency Governments (subject to general control by Government of India) and over the five-sixth part of revenue India Government would have full control.

167 Mayo to Argyll 1 Feb. 1869, Mayo Papers, bundle 34, no. 24.

168 Mayo to Argyll 19 Aug. 1870, Mayo Papers, bundle 40, no. 237.

169 Fin Progs. Jan. 1871 Accts. no. 22, Governor-General's Minute (23 June 1870) *ibid* no. 25, et. seq. Letters from R. B. Chapman, Financial Secretary to local governments dt. 17 Aug. 1870. *ibid* no. 48, Resolution by Governor-General in Council dt. 14 Dec 1870. *ibid.* no. 49, Government of India to Secretary of State, Fin no. 265, 14 Dec 1870. Temple and John Strachey (brother of Rechard Strachey) played important roles in the preparation of the scheme. *ibid* no. 20, Temple's minute 23 June 1870; *ibid* no. 21, J. Strachey's Minute 15 July 1870.

170 At first Mayo suggeted (minute dt. 23 June 1870) transfer of excise revenue to the hands of provincial governments to meet charges of departments transferred, but later this idea was dropped. The lump sum granted from 1871-72 onwards for 'Provincial Services' in the imperial budget amounted to £ 4,688,711 It was divided among the provincial governments as follows: Bengal, £ 1,168,592; Bombay, £ 880,075; Madras, £ 739,488; Punjab, £ 516,221; North-West Provinces, £ 640,792; Burma, £ 275,332; Central Provinces, £ 261,263; Oudh, £ 206,948. The proportion of allotments was on the basis of expenditure for the same services in the different provinces in the previous financial year, 1870-71. The total allotment for these services in 1871-72 was less than the expenditure in the previous year; thus a saving of £ 330,800 of imperial revenue was made. Fin Progs Jan 1871 Accts no. 48, Resolution by Government of India 14 Dec. 1871.

171 The Governments of Madras, Bombay and the North-West Provinces urged the necessity of larger assignments of funds and the desirability of transferring some expanding sources of revenue to meet increased charges in the future Fin. Progs. Jan. 1871

Accts no. 37, Secretary, Government of Fort, St. George, to Financial Secretary 27 Sept. 1870 ; *ibid* no. 40, Minute by Governor of Bombay 1 Oct 1870 ; *ibil* no. 33, Secretary, N.W.P. Government, to Financial Secretary 15 Sept. 1870. The Lieutenant-Governors of Bengal and the Punjab pointed out the difficulty of introducing new local taxes to pay for the transfered services. *ibid* no. 45, Minute by Lt Governor of Bengal 25 Nov 1870 ; *ibid* no 43, Minutes by Lt. Governor of the Punjab 22 Nov. 1870 and 10 June 1870. Nevertheless, on the whole the scheme was cordially accepted by the provincial governments.

172 Mayo to Napier of Marchistoun 4 Jan 1870. Mayo Papers, bundle 42, no. 7.

173 Argyll to Mayo 3 Mar. 1871, Mayo Papers, bundle 49, no. 5.

174 Since we are not concerned with provincial finance we need not enter into the history of local taxes here. The octroi duty (vide Mayo to J. Strachey 20 Nov. 1870, Mayo Papers, bundle 41, no. 321) and the house tax (vide *Indian Economist* 21 Sept. 1871) were unpopular in Bombay. J. S. Mill's letter (dt. 26 Aug. 1871) to the Editor of *The Times of India* (quoted in *Indian Economist* 21 Oct. 1871, p. 63) is of great interest ; Mill thought that whilst the house tax was perfectly equitable, octroi duty was an objectionable tax "on articles generally used by the mass of the people" ; "I do not say that in a country like India, where it is difficult to levy any tax to which the people are not used, financial necessity may not sometimes justify having recourse to such a tax, but I am sure it should only be adopted in extremity". The education and road cess on land revenue was regarded as breach of the Permanent Settlement of revenue (vide *Hindoo Patriot* 5 June, 12 June and 19 June 1871 on the Road Cess Bill ; *ibid* 6 Feb. 1871, 23 Jan. 8171, 10 July 1871 on the injustice of imposing education and road cess on Zamindars). The official point of view was that the road cess revived an obligation to maintain roads which the zamindars had managed to shake off since 1793. (Vide Sir G. Campbell *Memories of my Indian Career*, London, 1893, vol. II, p 210). On the North-West provinces vide Fin. Progs. Jan 1871, no. 47, Report of Local Taxation Committee of N.W.P. 12 Nov. 1870.

175 Mayo to Napier, 4 Jan. 1871, Mayo Papers, bundle 42, no. 7.

176 W S. Meyer, *Memorandum on the Financial Powers of the Government of India and Provincial Governments, for the Royal Commission on Decentralisation* (Simla, 1907) p. 13 et. seq.

[177] Sir C. Trevelyan's speech, Proceedings of meeting of East India Association, London, 7 Mar. 1871. *Journal of E.I.A.* vol. V, part II, no 92, p. 108-271.

[178] Secretary of State to Government of India, Fin. no. 59, 23 Feb. 1871.

[179] M. Venkatarangaiya *The Beginnings of Local Taxation in the Madras Presidency* (Madras, 1928) W. S. Meyer *loc. cit.*

[180] Sir C. Trevelyan *op. cit.* p. 108.

[181] Fin. Progs. March 18, 1871 Accts. no. 90, Jotendra Mohan Thakur, Secretary, British Indian Association to Secretary, Finance Department. 10 March 1871.

[182] *Pioneer* 2 January, 6 January, 10 February, 1871. *Hindoo Patriot* 9 January, 16 January; 23 January and 16 March, 1871.

CHAPTER THREE

TRENDS IN EXPENDITURE

AMONG the heads of charges the most important item was the Army which accounted for about one-third of the total expenditure of the Government of India in the 1860's. The number of troops in India increased enormously in the two years after the mutiny and the military charges correspondingly increased. There were spasmodic efforts in the 'sixties to retrench and reduce defence expenditure, but the Mutiny had been a traumatic experience and there was a strong resistance to the idea of military retrenchment from within the bureaucracy. The expenditure on Public Works (nearly 15 per cent of total expenditure) was in part on "ordinary works", the expenses of which were paid from the revenue of the year, and in part on "extraordinary works" the expenses of which were financed by loans.[1] The charges of Civil Administration were classified in the budget under several heads. First, the head of charge appearing in the budget and accounts as "General Administration" provided for the salaries of the Governor-General, the members of his Executive and Legislative Council, the Governors, Lieutenant-Governors and Chief Commissioners, the Secretaries of the Government of India, officers of the Accounts and Audit and Currency Departments etc. Expenditure under this head aggregated 2 to 4 per cent of

total expenditure. Second, the cost of the administration of justice—the expenses of the courts of law or judicial department, jails etc.—came under the head 'Law and justice' (about 5 per cent of total expenditure). Third, the establishment expenses of all the revenue collecting agencies—customs, excise and forest conservancy departments, the opium agencies in Bengal and Malwa, the inland customs staff to levy salt duty, staff for registration of documents and sale of stamps, the personnel recruited from time to time for the assessment and collection in income-tax were grouped together under the head 'Charges of Revenue Collection'.[2] Charges under this head fluctuated a good deal, but usually they accounted for 17 to 20 per cent of the total expenditure. These charges of civil administration together with 'Superannuation and compassionate allowences' (paid to the European and Indian servants of the Government) and 'Furlough charges and absentee allowances' (paid to the Indian Civil Servants) exceeded one-third of the total expenditure of the government in an average year in the 'sixties.[3] Among the other heads of charges an important one was 'Political Agencies', covering a multitude of expenditure such as the upkeep of Political Agencies and Residencies in native princely states, the cost of armed forces in the frontier areas, consular charges in Persia and Kabul and cost of maintaining a military station in Aden (shared with the British Government), political subsidies or bribes to tribal chiefs in the frontier areas and so forth. The 'Interest Charges', including dividends to proprietors of East India stock, accounted for about one-tenth of the total expenditure. The 'Home Charges' in the bureaucratic jargon of the 19th century meant actually foreign charges i.e. expenditure in sterling in England. This head covered interest on debt in England, cost of stores for India, home charges for service of British forces in India, transport charges of troops going out to India or returning to England, charges for pension and

annuities to army officers and interest paid to guaranteed railway companies. It is useful to keep in mind these broad facts about how the balance sheet looked like, when we consider the policy issues in the post-Mutiny period.

I

The average ratio of military charges to total expenditure was in the range of 30 to 35 per cent in the eighteen-sixties. Thus the Army was the largest single item among the heads of expenditure. In Britain's imperial design the Indian army had an important role : the policy regarding military expenditure was not framed solely on the grounds of India's defence needs. Was the large expenditure on defence defensible? Was the Indian Government's military arrangement with the "Home Government" a channel for draining away India's revenues and wealth? We shall try to answer these questions.

The Mutiny naturally caused a sharp rise in the military expenditure of the Indian Government : it went up from Rs. 11.49 crores (1856-57) to Rs. 15.57 crores (1857-58). The tendency to rise persisted in 1858-59 (Rs. 21 crores) and 1859-60 (Rs. 29.9 crores) : once the machinery for recruitment of local levies and police and transportation of troops from England was put in motion, it could not be suddenly stopped.[4] The total number of troops in India came to a peak in 1859-60. The proportion of European troops to native forces increased from 1:6 in 1857 to approximately 1:2 in 1858-60; the military Home charges increased from £ 340,000 (1856-57) to £ 1.82 million (1860-61). After the Mutiny as a matter of policy the number of Europeans in the army was increased and the artillery, which had been mainly native, was now manned almost exclusively by Europeans. The rise in the number of troops as well as the rise in the cost per head (since European troops cost more to the Government than

native soldiers) was felt to be a heavy burden. Early in 1859 the Secretary of State urged the Governor-General carefully to watch military expenditure, without being niggardly in the disposal of troops and supply of military stores.[5] He warned the Indian Government that it was "most unsatisfactory to continue system of loans for the general wants of the Government".[6] The Governor-General in Council promised "reduction in the present enormous war charges" as soon as it was possible and to as great an extent as might be considered safe;[7] but an immediate reduction was not feasible.[8] The Secretary of State was of opinion that since tranquility had been restored the native local levies might be disbanded.[9] He further suggested that the police forces newly recruited might do the duties formerly assigned to native troops whose number should rapidly be reduced.[10] At the same time, he suggested, more regiments of the line should be sent home as early as possible.[11] The Secretary of State was anxious to reduce expenses in India so as to restore financial equilibrium. "Every allowance ought to be made for the extraordinary crisis through which you [Government of India] have lately passed; but the disposition to look to this country as a certain resource for supplies of species, cannot too strongly be discountenanced".[12]

Retrenchment was commenced in India on the lines suggested by the Secretary of State. The Military Finance Commission headed by Col. Balfour began in 1859 to prune military expenditure. The latter's recommendations for controlling military stores expenditure reduced the commissariat charges.[13] Secondly, the native army was reduced from 213,000 (1859-60) to 184,000 (1860-61).[14] The Secretary of State demanded further reduction in the number of native troops: "it is only by reductions in the Native Army that the means of paying the larger number of Europeans can be provided".[15] The number of native sepoys was, therefore, further reduced to 121,000 in 1862-63. It was recognised that keeping a larger

proportion of Europeans in the army in India than was customary before the Mutiny was a political necessity. But the Secretary of State desired that their number should not be more than was "absolutely necessary to ensure the perfect safety of our dominions".[16] Sir C. Wood was not satisfied with the progress made by the Government in retrenchment.[17] The Government of India had, indeed, held out hopes for a larger reduction than could be effected; retrenchment was a slow process.[18] Moreover, the confused state of military accounts concealed many channels of wasteful expenditure.[19] By 1862-63, however, the number of European soldiers was brought down to 76,000; that is to say, their number was reduced by about 30,000 in five years (1858|59-1862|63).

These retrenchment measures brought down military expenditure from the abnormal level to which it had gone up during the Mutiny. In 1859-60 military charges amounted to Rs. 20.9 crores: by 1863-64 the charges were reduced to Rs. 14.5 crores. Credit for this goes to Sir C. Wood and to Col. Balfour of the Military Finance Commission who applied himself to the unpopular task of retrenchment of expenditure with an uncompromising spirit.[20] The Military Finance Commission (appointed in June 1859) had grown into a full-fledged Department (July 1860). In April 1864 it was abolished and the routine work of supervising military expenditure was assigned to the Controller-General of Military Expenditure.[21]

In the period 1864-65 to 1870-71 military expenditure remained almost static in the neighbourhood of sixteen crores. Military charges showed a slight tendency to rise during the viceroyalty of Lawrence. Lawrence found it difficult to control expenditure in the army.[22] The rise in military expenditure was partly due to the Bhootan War expenses and partly due to the general rise in prices and wages.[23] The Government of India was in a dilemma: it was, as Secretary of State Cranborne put it, "less troops or more taxes."[24]

Lawrence was anxious to reduce military charges but, as Wood had apprehended, the military members of the Council opposed the economy measures.[25] In the name of efficiency they recommended to Lawrence measures involving more expenditure.[26]

In January 1869 the Secretary of State wrote a long despatch to the Governor-General drawing his attention to the increase in military expenditure over the last five years. It was pointed out that for the European troops the charge per man had increased considerably; the expenses in the Commissariat had not been reduced noticeably; the expenses in the Stud and Remount department and charges for staff appointments and establishments had gone up; and the new system of police, contrary to expectations, had not led to reduction of military charges.[27] Mayo undertook the task of reduction. It was possible, he wrote to Lord Sandhurst, to reduce the military charges to Rs. 12 crores : this was, indeed the recommendation of Balfour, though all his recommendations for retrenchment were not fully implemented.[28]

Mayo found India "full of military sinecurists" and "Inspecting Officers who have little or nothing to inspect and 'doinig duty' officers who have no duty to do".[29] Moreover, Mayo felt that the political climate had changed a good deal since the Mutiny. "I also fear that sufficient account is not taken at the India office", he wrote to Argyll, "of the extraordinary change that has taken place in the aspect of military affairs in India . . . A well organised Police and an undiminished British Force is all that will be wanted in the South of India".[30] There was no necessity of a large native force, since there was no "political danger", particularly in the south. Mayo "incurred all the odium" of enforcing retrenchment in barrack construction, commissariat etc.[31] He succeeded in reducing the military charges. But when he proposed reduction of the number of troops he encountered very stiff opposition from many quarters.[32]

Mayo proposed a drastic reduction of twenty regiments. The retrenchment was mainly in the Madras Presidency Army. Some of his advisers (e.g. Durand, Mansfield) were of opinion that even more Regiments could be dispensed with in Madras.[33] Mayo thought that the Madras Army was weak and ill-disciplined.[34] The army maintained in Madras Presidency was "wholly disproportionate to its wants"[35] and it was better to disband that army became it was not "well affected to British rule".[36] He denied that there was any "Bengal prejudice against the Madras Army"[37]. It was simply unfair to maintain there an army which was of no use at the cost of the tax payers.[38]

Argyll was anxious that expenditure should be reduced in the administrative branches of the military department, the General Staff, the Stud Department, Commissariat etc.[38a] But he did not want reduction in the number of troops.[38b] The proposal to reduce the number of troops was attacked from many unexpected quarters. "I own I am amused to find," Mayo wrote to Bartle Frere, "that in every quarter where there was the greatest clamour for reduction of expenditure there is a disposition to criticise and to find fault with the details of what has been done".[38c] "I am rather disappointed to hear . . . some who were calling out loudly for economy and condemning needless expenditure now that reductions are really undertaken shake their heads and though preposing nothing say 'hasty', 'cruel', . . . [illegible] 'unnecessary' etc".[39] Lord Napier of Magdala opposed retrenchment proposals : "Lord Napier seems to think", Mayo wrote to Argyll in exasperation, "it is his duty to resist every proposal by which waste of money can be avoided . . ."[40] Mayo was annoyed to know that Napier had sent some papers to members of the India Council in London and to Argyll : to avoid an open dispute Mayo did not continue "a warfare of notes" and Napier was taking advantage of his "over-scrupulousness".[41] Mayo

complained to Argyll that his relations with the Commander-in-Chief were unhappy. The latter was uncooperative and to hold up the decision on reduction he kept the relevant papers for three months.[42] Eventually matters came to such a pass that "it was only the continued absence of the C-in-C [Commander-in-Chief] from Council [Governor-General's Council] that prevented repeated explosions".[43] Sir H. M. Durand, as a champion of the cause of the Army, proposed—almost as a retaliatory measure—reduction in civil expenditure.[44] The suggestion was, of course, rejected by the Governor-General who pointed out that military expenditure was the largest item in the budget.[45] Mayo wanted that the Commander-in-Chief should be distinctly made to understand that in matters of finance he was to be "subordinate not only to the Government of India but to the exigencies of the State".[46]

But the Commander-in-Chief was not alone in opposing retrenchment. Argyll himself was unwilling to sanction the proposed reduction.[47] The Duke of Cambridge was gravely concerned that the reductions might interfere with the efficiency of the army.[48] Almost all members of the India Council in London were opposed to reduction in the number of troops. A big reduction was possible after the Mutiny but further reduction was, in the opinion of Argyll and members of his Council, not safe or desirable.[49] In February 1871 Argyll informed Mayo that since the India Council was opposed to the Governor-General's proposal the question would be taken to the cabinet.[50] The cabinet decided against Mayo and accordingly Argyll declined to sanction the India Government's proposals of army reduction.[51]

This episode we have discussed in some detail because it points out the chief obstacles in the way of reduction of military expenditure—in particular the pressure of the army men in the Governor-General's Council. Mayo had apprehended that his retrenchment scheme would be dropped.

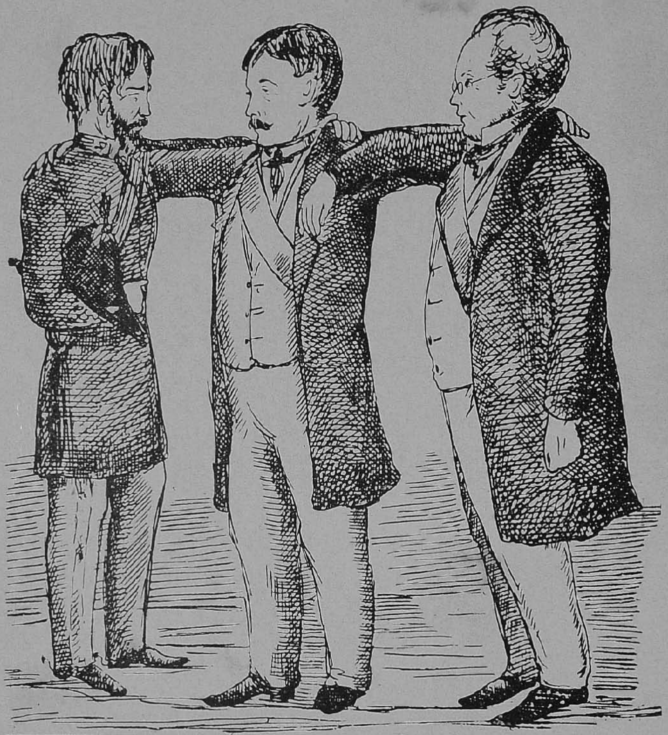
"Self-interest is difficult to beat", he wrote bitterly to Argyll in 1870. "Highly paid incompetency always finds hosts of advocates. The public service is a secondary consideration—and members openly advocate increased burden on the people rather than such a diminution of expenditure as can reasonably be effected".[52] Mayo, as we have seen before, was convinced that the Commander-in-Chief must be made subordinate in financial matters to the Governor-General and other members of his Council. Argyll gave his opinion in a private letter (marked 'confidential') : "I apprehend that your object is to eliminate from Council the special influence which favours undue military expenditure. You think that this influence centers in the Commander-in-Chief . . ."[53] But in India, Argyll thought, a 'Minister of War' could not replace the Commander-in-Chief because "if any military measure is resisted by the C-in-C his power of obstruction would be perhaps quite as great, if not greater out of Council than in it".[54] Argyll further said : "as the cost of the British army in India must always continue to be the heaviest expense, we must look to the best mode of taking along with us the Military authority who are connected specially with it".[55]

The controversy of 1869-71 regarding military retrenchment leads us to conclude that the army officers in positions of authority (particularly those in the Governor-General's Council) were obstructing economy measures; one also gets the impression that the "Home" authorities were extremely wary of reducing the armed forces in India. This was the experience of Lawrence (who complained of obstructionism on the part of the Home Government)[56] as well as Mayo (who found a very lukewarm support in the India Office when he proposed substantial reductions).[57] This was but natural, because the question of the strength of the Indian army was always considered in the context of the wider imperial interests of Great Britain.[58]

ANOTHER BALLOON ASCENT FAILURE IN CALCUTTA.

Sir Charles Trevelyan, the Finance Member (1863-65), in trouble : the balloonist is encouraged by Lord Lawrence, Governor-General (1864-69)

(*The Indian Punch*
May, 1864, New series Vol. 4, No. 43)



Lord Lawrence, the Governor-General, unites the Civil and Military services in his Viceregal embrace.

(*The Indian Punch*
June, 1864, New series, Vol. 4, No. 44)

II

A study of the financial transactions between the Indian and the British governments—the dependence of the Indian Government on the "Home" Government, the payments made to the latter, the cost of maintaining British troops in India to the Indian tax-payer—would throw light on the other question we had posed : Was India paying for Britain's larger imperial interests under the existing military arrangement with the Home Government ?

The East India Company paid for the services of Crown's British forces serving in India on the basis of an agreement between the War Office and the India Office. Up to the Mutiny year the expenses of recruiting, training, depot establishments and barrack accommodation in England were divided proportionately according to the number of soldiers and amount issued for the pay etc. of those on the Indian and British establishments respectively.[59] At the time of the Mutiny charge on account of British forces serving in India abruptly increased. The reinforcements from England were paid for out of Indian revenue—the whole pay of the troops so sent was charged to India, from the moment of their departure from the shore of England. The Indian Government's power to have a separate European force for local service in India was repealed in 1860.[60] The local European forces were merged with the crown forces by the Army Amalgamation Act of 1861.[61] This caused a permanent increase in the charges payable to War Office on account of Crown forces serving in India.

These charges, known as Effective Charges (i.e. expenses for effective troops of the U.K. serving in India), came under the review of Sir A. Tulloch's Committee, appointed to settle accounts between the India Office, the War Office and the Treasury. At the recommendation of the Committee a provi-

sional arrangement was agreed upon. The India Government was to pay £ 10,000 per annum for every 1000 men of all arms in India. That is to say a capitation rate of £ 10 was fixed, the number on which it was payable being based on the average of twelve-monthly muster rolls. The payment included all expenses for recruitment and maintenance until the arrival of the troops in India, excepting expenses for clothing, arms, accoutrements, and cost of transport.[62] Sir C. Wood was of opinion that the charges were excessive.[63] But the arrangement, made provisionally in the beginning, was renewed from time to time and remained effective from 1861-62 to 1869-70.

The War Office was not satisfied with this agreement. The cost of recruits up to embarkation for India and the depot charges had increased, and the War Office claimed that the £ 10 per head rate did not cover all the charges incurred for soldiers destined for India. The War Office demanded that the basis of settlement should be not on a rough average rate of £ 10 per head but actual charges. The Seccombe Committee was appointed in 1869 to enquire into the matter and to revise the capitation rate.[64] According to the new arrangement the rates were as follows: £ 136-13s.-11d. for Cavalry, £ 63-8s.-5d. for Infantry, £ 78-14s.-8d. for Royal Horse Artillery, £ 59-2s.-10d. for Royal Artillery, mounted, and £ 58-9s.-3d. for Royal Artillery.

India Office contended that the existing arrangement was too expensive and that further increase of effective charges would be unfair to India. Referring to the Army Amalgamation law of 1861 the Secretary of State, Duke of Argyll, wrote: "The abolition of the local European army in India was a measure dictated by considerations of Imperial policy; but it is questionable whether that measure could have been easily carried, if it had been fully known how great would be the additional burden thrown upon the Government of India".[65]

The system of recruiting and training was needlessly extravagant and the home depots overstaffed. Argyll could not consider it "either politic or just" to lay upon the revenues of India the cost of an organisation for supplying recruits which was far beyond what India needed or could afford.

The Secretary of State for War, Mr. Cardwell claimed that the effective charges imposed on the Indian Government, far from being unfair, were actually very moderate. The War Office represented that the United Kingdom forces served as reserves from which the Indian Government could obtain reinforcements in times of emergency. The existence of that reserve force had enabled the Indian Government to reduce the army in India. "The maintenance, therefore, of these available reserves forms, in Mr. Cardwell's opinion, an important item in the actual disbursements out of British revenue, for repayment of which Indian revenues are directly liable . . . ."[66] Therefore India was liable to bear a proportion of the cost of the machinery of drawing recruits and the expenses of the reserves of effective soldiers.[67]

The Indian case was forcefully presented in the rejoinder to Cardwell's letter.[68] The War Office had claimed that Indian Government had in the British Army in England a reserve force ready to be used for Indian purposes. "A share of the cost of every home establishment or institution, of whatever kind, to which the India Government affords custom or employment" might be forced on India on the same principle. In point of fact Great Britain treated Indian forces as a reserve. "It would be much nearer the truth to affirm that the Imperial Government keeps in India, and quarters upon the revenues of that country, as large a proportion of its army as it thinks can possibly be required to maintain our dominion there: that it habitually treats that portion of the army as a reserve force available for imperial purposes; that it has

uniformly detached European regiments from the garrison of India to take part in Imperial Wars . . . and that it has drawn not less frequently upon the Native Army of India, towards the maintenance of which it contributes nothing, to aid it in contests outside India, and with which the Indian Government has had little or no concern". Only the case of the Mutiny, which was an extraordinary affair, gave some plausibility to the War Office representation, but the cost of British troops at that time was paid by the Indian tax payer. The cost of recruitment and training in England had gone up, according to the War Office. But the cost had been swollen by an artificial system of charge, so as to include outlays which had really nothing to do with cost of training, but were connected entirely with the organisation of the home garrison of England, and quite unconnected with the requirements of India. The same point was made by the Indian Government in their representation to Argyll.[69]

Among the items under the head 'Home Charges' Army expenses predominated. The items were as follows: sums paid to Her Majesty's Government for Queen's troops serving in India; transport charges for the troops; outfit; charges of the depots in England and recruiting charges; charge for the Military College at Addiscombe; furlough and retired pay to officers; pensions.[70]

We have been discussing the 'effective charges' so far · the 'non-effective' charges, i.e. pensions paid to soldiers after retirement, constituted a big item in the Indian Army budget.[71] Before 1823 no payment was made to the War Office on account of the non-effective charges for British forces serving in India From 1823 onwards the Court of Directors agreed to pay a fixed sum of £ 60,000 annually towards meeting non-effective charges. In 1858 the War Office demanded a revision of this agreement since the number of Royal troops serving in India

had increased since 1823.[72] A Committee appointed in 1859 for the purpose of assessing the non-effective charges decided on £200,000 a year for an army of 30,000 of the line serving in India.[73] The India Office members of the Committee dissented from this assessment on the ground that it was excessive. Another Committee was appointed and it recommended (31 January 1861) the payment of £3,500 annually for the non-effective charges for every 1000 men of all arms. This was accepted and became effective from March 1861, at first for one year, and then for five years more.[74] This was intended, initially, to be a temporary arrangement. In 1870, on the recommendation of the Seccombe Committee, a more accurate assessment of non-effective charges payable by the Indian Government to the War Office was introduced. From April 1870 non-effective charges were made on a new principle: capitalisation of the Indian share of valuation (on the basis of actuarial tables) of pensions granted. This arrangement continued till 1883.

The breakdown of the total military expenditure shows that about one-fifth of the total was spent in England to meet the effective and non-effective charges and stores charges. A fairly high proportion was spent on administrative staff and establishments (Commissariat, Barrack, Medical etc.); the stores expenditure was high; and the non-effective charges in England almost always exceeded similar charges in India.

Among the heads of charges, in the Indian accounts, the navy is not mentioned, for India did not have any navy of her own since 1862. The naval force maintained by the East India Company was converted in 1862 into a noncombatant force called Royal Indian Marine: it was responsible only for the transportation of troops in Indian waters, maintenance of light houses, marine surveys etc. In the Indian accounts Marine Charges are shown separately: the expendi-

ture varied between half a crore and one crore annually. The task of general naval defence was assigned to the Royal Navy. From 1862 to 1869 no payments were made for this service to the Admiralty, but from 1869 onward £ 70,000 was paid annually to meet the expenses of maintaining six ships for this purpose. The term 'Indian purposes' was interpreted loosely : the Royal Navy ships protected British trade in the Indian Ocean. If England was giving naval protection to India, Governor-General Lawrence pointed out in a Minute in 1868, she was doing so in her own interests. "It is a duty which I presume she performs in return for the advantages of commerce, representing many millions of money annually . . . . [and for] the preservation of her trade".[75a] Mayo protested to Argyll against the imposition of a charge for naval assistance : "I hope you will not allow us to be forced to pay £ 70,000 a year to the Imperial Government . . . The truth is we all feel that in this matter we have been completely 'done' " and that it was "a flagrant piece of piracy".[76]

The employment of Indian troops beyond the borders of India was not an infrequent occurence. Under the Government of India Act of 1858 the revenues of India must not, without the consent of Parliament, be applied to defray the expenses of military operations beyond the external frontier except for repelling invasion.[77] This protected to some extent India's interests : all extraordinary expenses (i.e. charges in addition to the normal pay and allowance of officers and men) occasioned by a military operation beyond the Indian frontier were borne by the British Treasury. The Indian Government was not entirely satisfied with this principle : whenever troops were sent from England to India the whole pay of the troops sent and the extraordinary expenses were always charged to India from the moment of their embarkation, but the British Treasury did not as a rule pay the ordinary expenses (i.e. pay and allowance) of Indian troops serving in an area of operation

outside India. There was no reason why the British Treasury should not pay the ordinary expenses of Indian troops when they were used in foreign wars. "It is certain", wrote the Military Secretary at India Office in 1872, "that all these wars were dictated entirely by the Imperial Government and that the interests of British commerce, the grievance of British merchants, the honour of the British Crown, were the determining considerations in them all".[78] Indian troops were used in China in 1842 and 1859-60, in Crimea in 1855, in Persia in 1856-57, in New Zealand in 1860, and in Abyssinia in 1867. The following parody originated in 1878 when Indian troops were sent to Malta :—"We don't want to fight, but by Jingo if we do, We won't go to the front ourselves, But we'll send the mild Hindoo".[79]

The Abyssinian War of 1867—which caused a minor financial crisis—was a case in point.[80] The extraordinary expenses of Indian troops in Abyssinia were paid by Britain. but the ordinary expenses were charged to India. Governor-General Lawrence wrote a remarkable minute on this subject "India has no direct interest in this war . . . No doubt precedents can be quoted in favour of the present ruling, but the real point is, are these precedents founded on justice or fair play? Does England, when she lends her troops to India, act on the same principle? . . . India not only pays for the British troops serving in India, but also for the cost of raising them, and maintaining them at their proper strength. She pays also for their transport to and from home . . ."[81] Unless the principle of charging to India the ordinary expenditure for Indian troops abroad was changed "the people of India should be under the impression that one principle is applied in the case of England's interests and another as regards those of India, both operating adversely to the latter country".[82] Such an effective denunciation is rarely to be

found even in the writings of the Indian nationalist spokesmen. Like Lawrence, Mayo was also concerned about the impression the people of India would form : "it will cause an amount of dissatisfaction here that will be difficult to allay and may be almost dangerous".[83]

India, Marquess of Salisbury said in 1867, should not be looked upon as 'an English barrack in the Oriental Seas'.[84] In practice, however, the troops in India were treated as a reserve force and the British troops were maintained in India and paid out of Indian revenues. Sir Charles Dilke pointed out that the arrangement with the Indian Government allowed Britain to maintain at Indian cost 70,000 British soldiers, who in times of danger would be available.[85] The Indian Government could be charged with the expenses of troops and that Government was free of the constraints existing in England—legal constraints by Acts of Parliament and financial constraints.[86] The questions of military finance were not therefore determined entirely on Indian considerations; "general considerations" beyond the immediate conditions and requirements of India were taken into account.[87] In 1874 the Select Committee of the House of Commons on Indian finances "received an impression . . . . that charges have in some instances been imposed upon India which ought to have been borne by England Your Committee have, however, been assured by various witnesses that a very general desire prevails among the different English departments not to throw upon India any charge improperly"[88] The authorities in England were not consistently unfair to India but, as Governor-General Lawrence put it, "the natural bias of their mind" was "to relieve the tax payers in England".[89] They desired to reduce the military expenditure in India without endangering the safety of their dominion and, in employing and financing the army, they acted on the principle that the interests of India were subordinate to the larger imperial interests of Great Britain.

III

Railway development in India provides an interesting instance of state-aided British entrepreneurship in India. Under the terms of the contracts drawn up in 1849 the Government of India provided land for which the Railway Companies did not have to pay.[90] The Government also guaranteed a minimum rate of interest—usually 5%—on paid up capital for ninetynine years. After deductions for cost of operation, maintenance and for the reserve fund, the remaining surplus were to be used first to meet the current 5% interest charges (so as to free the Indian Government of the obligation). The residue was to be divided equally between the Indian Government (as repayment of guaranteed interest advanced in the past) and the Railway Company. When the government was repaid in full for its advances, the entire profit would go to the Railway Company. Each Railway Company had the right to surrender the railway line and works to the government and receive compensation in full for all capital expended. A Company could exercise this right at any time before the 99 years lease expired. At the end of 99 years the Railway and its works would automatically become property of the Indian Government. The two last mentioned rules, about transfer of ownership to Government, were not self-consistent. A Railway Company could enjoy the benefits of the contract—including guaranteed interest—for 98 years and then surrender the line to government and claim full compensation, just before the rule about automatic reversion (without compensation) of its property to government would come into operation at the end of 99 years. In short the contract ensured the Railway Companies' guaranteed profit of five percent as well as the liberty to withdraw, "leaving the state to hold the unprofitable baby".[91]

It has been well said that this was an instance of private enterprise at public risk. "Guaranteed Companies", wrote the

Duke of Argyll, the Secretary of State, to Mayo, "do *not* represent Private Enterprise".[92] The Companies were no more than agencies for raising and spending money; all the entrepreneurial risk was the State's. "It is significant that manufacturers and Members of Parliament from Manchester, the heart of laissez faire in Britain, were among the leading advocates of governmental intervention to underwrite railways for India".[93]

It can be plausibly argued that although the terms of the guarantee contracts were unfavourable, this was the only way open to the Indian authorities. Such was the opinion of Danvers, Chesney and Strachey.[94] The employment of joint-stock companies, they pointed out, ensured continuous raising of and application of capital for railway purposes. Had the capital been directly raised by the Indian Government the money would probably have been diverted to other purposes, particularly during the post-Mutiny financial crisis. Thus railway development would have been hampered. Moreover, India was a new field of investment and the investors naturally expected the government to underwrite and to guarantee a somewhat high rate of interest.[95]

Railways account for a significant portion of the British capital that moved to India in the last half of the nineteenth century. It has been estimated that between 1854 and 1869 about one hundred and fifty million pounds of British capital were invested in India. Of this about half went into railways Between 1858 and 1869 £70,110,000 were expended upon Indian Railways.[96] The guarantee system was definitely successful in attracting capital.

But the glaring defects of the guarantee system could not ignored. (a) The guaranteed interest of 5% was 1% higher than that on government securities; that is to say, the Government of India could, if it wanted, borrow more cheaply. The interest remitted to England swelled the Home Charges and the

volume of guaranteed interest expenditure increased as the capital expended on railways increased from year to year. To allay the consequent anxiety of the Indian Government, the Secretary of State pointed out that "the character of this interest is undoubtedly different from all other, as it is eventually repayable to the Government".[97] As the railways would be completed, net receipts from traffic would increase and reduce this charge on Indian revenue. However the date of repayment was remote and meanwhile the guaranteed interest change was a heavy burden.

(b) Another defect of the guarantee contracts occasioned considerable loss to the Indian Government. The contracts provided that capital raised by the Railway Companies would be credited to the account of Home Government of India at the Bank of England and the agents of the companies would draw on the Government treasuries in India at a fixed rate of 1s. 10d. per rupee. In the period under review the accounts between the Indian Government and the India Office in London were adjusted at the rate of 2s. per rupee. Thus the Government of India lost 2d. out of every rupees withdrawn by the Railway Companies out of Indian treasuries.[98] This loss was shown in the accounts as 'loss by exchange'.[99] It amounted to an average of £ 142,000 per year in the decade 1862-1872.[100] In 1861 the Governor-General in Council requested the Secretary of State not to renew contracts or grant new ones "without expunging this objectionable clause."[101]

The Government of India contended that the burden of charges due to loss by exchange should not be thrown on the revenue of the year.[102] The Finance Member of Viceroy's Council, Samuel Laing, was opposed on principle to the payment of loss by exchange out of the revenue of India.[103] But Sir C. Wood, the Secretary of State, insisted that this charge be met out of current revenue.[104] For having excluded this item from the budget of 1861-62 without his authority, Laing was

reprimanded in strong terms. The 'loss by exchange' continued to be a heavy annual drain. Apart from 'guaranteed interest' and 'loss by exchange' the Indian Government had also to pay for land for railway lines and for supervision.

(c) According to the contracts the expenditure of railway companies in India were to be audited jointly by Railway officials and Government officers. This review was intended to safeguard the interests of Government. But in examining the accounts, Secretary of State Wood instructed the Government of India, "you should deal with the Railway Companies in that liberal spirit which is essential in controlling works of such magnitude . . ."[105] In fact the government failed to control the expenditure of the railway companies. Canning in 1858 and Sir W. Denison in 1861 pointed out that (probably due to division of responsibility among Railway and government officials) the extravagance in expenditure of the Railway Companies could not be checked.[106] In their evidences before the Select Committee of 1872, Lord Lawrence, Sir Arthur Cotton, Major Chesney, W. N. Massey, Willian Thornton and others were almost unanimous on one point—that the cost of construction of railways in India had been unusually high.[107] "It is clear that the guarantee we give of 5 pct. removes to a great extent the motive to economy in expenditure, which is one of the great advantages of Private Enterprise."[108] Here the Duke of Argyll had correctly diagnosed the disease. Nor could anything be done about "the anomalous system of double government" established by the railway contracts.[109]

(d) Another problem stemming from Government's relations with Railway Companies should be noted. As a rule the Indian Government made advances to a company for construction of railway works even in the event of the expenditure exceeding payments made by the Railway Company to Home Treasury, and the amount standing to the credit of the Company. Such was the instruction of the Secretary of State.[110] The Railway

Companies often overdrew their accounts and failed to pay promptly in England for disbursements made to them from Government treasuries in India. This created serious problems. For instance, in 1860 the Government of India had to reduce railway advances, thus causing delay in the completion of some lines.[111] The Secretary of State obtained sanction of Parliament to raise a loan of £ 3,000,000 since the Railway Companies could not pay for disbursements made to them in India.[112] In February, 1861 the crisis deepened and the Secretary of State was warned that Government of India may stop disbursement to Railway Companies altogether.[113] Early in 1861 the Secretary of State decided to avail of Parliament's permission to borrow obtained earlier.[114] This helped the Government of India to tide over the crisis. In 1866-67 the Government was again in difficulty due to the practice of Railway Companies of overdrawing their account. The Cash Balances in India were very low and the Secretary of State was requested to require the Railway Companies to increase their payments and increase the capital account to their credit.[115] In 1866-67 estimated disbursements to Railway Companies in India, exceeded receipts from them in England by £ 2,612,000.[116]

These then were the main drawbacks of the so-called guarantee system under which the Indian Railways were constructed. To remedy these defects the Government of India adopted the policy of (a) tightening governmental control over expenditure in order to check extravagance; (b) the Government also tried to have railway lines built by new Companies without any guarantee, and to modify the old contracts with existing Companies; (c) further, the Government decided to build under its own management, with capital raised by itself, State Railways.

(a) The Railway Companies' expenditure was audited by government officials. "This review", Sir C. Wood observed, "is a process, which is a most important safeguard to the

interests of Government and of the shareholders, and at no cost to the latter".[117] This supervision was not very effective until, in 1864, at the suggestion of the Accountant General of Public Works Department, Appropriation Audit was introduced together with other minor reforms.[118] A government examiner, attached to the office of each Railway Company, checked accounts with original vouchers. Periodical accounts of receipts and expenditure were drawn up and submitted to government.[119] Argyll advised Mayo to check loss on guaranteed lines by increasing the efficiency of the system of audit and accounts.[120] In 1871 the Government of India appointed, in anticipation of the Secretary of State's approval, a staff of Auditors of the accounts of guaranteed Railways.[121] This was subsequently approved by the Home authorities.[122]

The Government of India was sometimes placed in a difficult position due to the practice of Railway Companies of over-drawing their accounts. In order to ensure prompt repayment of advances made to Railway Companies in India, Government of India proposed to charge interest at the rate of 5% on advances in excess of the payments made by Railway Companies.[123] The Secretary of State, Northcote, conceded that since conracts did not provide for such advances an interest could fairly be charged. The amount so chargeable would be added in the future to the sum recoverable from the Railways for guaranteed interest.[124] At the same time interest was allowed to Railway Companies on the amount of their revenue balances in the Indian Treasuries, after deducting the sum advanced to them by the government.[125]

(b) In order to avoid the problems of the guaranteed-interest system, the Government of India tried to have some light feeder lines built without guarantees.[126] But it was found that a subsidy of £ 100 per mile had to be given, and that even the subsidy was insufficient to attract capital.[127] Eventually concessions on the lines of the old guaranteed interest contracts

had to be made. These new contracts were, however, more favourable to India's interests in some respects, notably in the matter of exchange rates and better governmental control over expenditure.[128]

The guaranteed-interest contracts which had been drawn up in 1849 and the following years were modified in 1869. Argyll, the Secretary of State, asked the Railway Companies to agree to an amended contract which stipulated that the Government of India would receive half of the surplus net profits for all time to come. This, he thought, would be a good bargain for the Indian government and in exchange he was prepared to make two concessions to the Railway Companies. First, the whole debt on account of advances made by the Indian Government for guaranteed interest was to be wiped out; the Companies would not have to repay this debt. Secondly, Argyll also gave an assurance that the Government would not purchase the railway lines within the next twentyfive years. Most of the Railway Companies accepted these conditions.[129] The Governor-General wrote to the Secretary of State expressing his government's dissatisfaction with this arrangement.[130] Mayo complained to Argyll in one of his private letters, where his opinions found a more uninhibited expression than in the official correspondence: the effect of the recent arrangement with Railway Companies, he wrote, "will not only be to lay a needless and heavy charge on our Tax Payers, but also to tie up in India for an almost indefinite time a large amount of English capital".[131] Argyll, although not unaware of the grave defects of the guarantee system, thought that "a partial continuance of the guarantee system" was justifiable.[132] He hoped that when the lines would be completed traffic receipts and net profit would increase and half-share of that profit would compensate the Indian Government for the surrender of arrears due to it from Railway Companies on account of advance made to them.

(c) The Government of India, disillusioned with the guarantee system, decided in the late 'sixties to start State Railways. In arriving at this decision the Government took a long time; it was breaking new ground. Not unnaturally it was the leader of the so-called 'Paternalist' school, Lord Lawrence, who set the ball rolling. There were a few, like Laing and Frere, who preferred private to State agency in railway development.[133] But most of the recognised specialists on public works, Thornton (heading the Public Works Department in India Office), Chesney (Accountant General of Public Works Department), R. Strachey (Secretary of Public Works Department), as well as Lord Lawrence, were decidedly of opinion that State Railways would be far cheaper and better administered than guaranteed railways.[134] Initially, however, there was resistance to the idea of State participating directly in railway building and Lawrence's suggestion, made in 1867, did not find favour with the Home authorities.[135] The then Secretary of State, Northcote, was unwilling to disturb the existing arrangements, though he recognised that unremunerative 'Political' lines (i.e. those needed for security reasons) should be undertaken by the State.[136] Shortly after this Argyll succeeded Northcote, and Mayo, Lawrence. Argyll and Mayo vied with each other in pushing forward the State Railway scheme. "No one has a stronger opinion", wrote Argyll to Mayo, "than I have against that [guarantee] system". "I took up the question of direct government construction long before I knew that Lawrence supported it . . . ."[137] Argyll obtained the Cabinet's sanction for his State Railway plan.[138] Mayo also was confidently advocating government construction. "There is really no reason to suppose that the Government of India cannot carry out any amount of work of construction for which capital can be found and interest provided from the revenue".[139] The Government of India officially raised the question of government construction once

again, and this time obtained approval for schemes of constructing two lines.[140] The case for government construction was clearly stated by Argyll: "We could raise the money on our direct security at 4 pct. whereas we guarantee 5 pct. to the Companies—and besides this we sacrifice our right to any possible surplus of profits . . . I should like to see one great Railway Department formed—raising separate loans exclusively devoted to railway works—expending the money by contract under an efficient corps of engineers—and dispensing altogether with the 'double government' of Directors etc. who can only do what we would do far better.[141] One point of immense importance made by Argyll was that the manner in which capital was raised through the Railway Companies was such that British capital alone was invested, almost to the exclusion of Indian capital. "A great political object would be gained if we could induce the natives of India to invest more largely in our loans. Let me direct attention to the fact that the share they now hold in our public debt is diminishing .... as regards Railway loans the natives have supplied not much more than one million out of the 80 millions invested".[142] Loans floated by Indian Government he hoped, would attract Indian capital. In his Financial statement in his House of Lords Argyll observed that state agency was "a less extravagant mode of raising the money, and a less extravagant mode of spending it".[143] Argyll had expected much greater opposition than he actually faced. In the early stage of the planning of State railways he advised Mayo to be very quiet about it. "It will be well to keep this question very *private at present*. Many interests will be alarmed by the proposal".[144] But due to his adroit manoeuvering and the presentation of the proposal as an experimental measure the plan was launched smoothly Laissez faire went over-board. In 1872. at the time of Select Committee's enquirly into Indian Finances none of the wit-

nesses examined questioned the advantages of direct government participation in the construction of railways.

The impact of railway development—regional specialization, increase in the volume of trade, creation of entrepreneurial and employment opportunities, stimulation of population movement, effects on prices and wages, etc.—was only beginning to be felt. Wilson, who was (as a member of the India Board of Control and later as the Finance Member in India) instrumental in initiating railway development predicted that "the advantages which they are calculated to confer are even greater than any we have yet experienced . . . "[145] From the financial point of view, as we have seen, the guarantee system under which railways were built was a source of loss to the Indian Government. But the authorities, as we have mentioned before, looked forward, with justifiable optinaism, to a time when the Railways would become a source of profit. The Government, it was expected, would gain directly from profitable lines as well indirectly. "Every year they [the Railways] are needlessly delayed", wrote Cranborne to John Lawrence, "in effect robs the future Indian financier of the increased yield from indirect taxation to which he must look to defray the progressive and inevitable increase of charges ".[146]

IV

Till 1854 there was no separate Department of Public Works in India. For constructing and maintaining public works there was a Military Board in each Presidency to function as a supervisory body; this sufficed because the bulk of the Public Works expenditure—insignificant in volume—was on account of military works. In 1854, during Lord Dalhousie's administration, a separate Public Works Department was set up. This marked a turning point. After the removal of Public Works from the control of the Military Board more and more atten-

tion was paid to Civil Works, i.e. civil buildings, roads, embankments, canals and irrigation works. The funds available for public works development was a mere sixty lakhs in 1849-50; in 1856-57 the outlay on Public Works had increased to nearly Rs. 2.25 crores. Thus the East India Company, having neglected Public Works for almost the entire period of its tenure in India, showed a sudden spate of activity in the last three or four years.[147] "The Company treated its domain as an oriental despot his estate, to be exploited not improved, an important economic difference being that the European landlord was an absentee."[148]

Due to the destruction of records in northern India during the Mutiny, the disruption of administrative routine and insufficient attention to the keeping of accounts it is difficult to arrive at any accurate estimate of Public Works expenditure in 1857 and 1858. Investment in non-military construction projects was curtailed severely during and immediately after the mutiny year. In the 'sixties the yearly public works grants slowly climbed up from an average of Rs. 4.3 crores in the period 1860-65 to an average of Rs. 6.8 crores in the second half of the decade. From 1867-68 onwards part of the expenditure on public works was met with loans (termed "extraordinary expenditure") and part of it out of revenue (termed "ordinary expenditure"). The expenditure on public works per head of population may be roughly calculated for the year 1871-72, since we have for that year some demographic data on the basis of a census. Expenditure per capita on "ordinary" public works was exceedingly low in Bengal (Rupee 0.103), Madras (Rupee 0.106) and the North West Provinces (Rupee 0.19) and only slightly higher in the Punjab (Rupee 0.34) and Bombay (Rupee 0.53).[149]

The chief complaint of the nationalist spokesmen regarding the public works policy of the government was that non-development expenditure tended to rise, and that the proportion of the revenue spent for development tended to remain static

or to fall. In their rough and ready fashion the nationalist critics of the government classified the expenditure on roads, canals, embankments, anicuts, harbours etc as development expenditure as opposed to expenditure on civil buildings such as court houses, jails etc and military barracks which obviously constituted a different category. We shall discuss later the basis of the estimates of non-development expenditure made by the nationalist spokesmen. It is, however, interesting to note that the Viceroy and his Council did have qualms on this score. In one of their despatches to the Secretary to State the Governor-General in Council observed that in the late 'sixties "the proportion of our military works expenditure has much increased which expenditure does not conduce directly to the growth of national wealth . . ."[150]

The inadequacy of resources for roads and irrigation works compared to the vast requirements of India suggested one obvious course of action: to supplement revenue by raising loans. But there was a good deal of prejudice in those days against government borrowing, a prejudice based on a false analogy between public and private borrowing. Typical was the dictum of Henry Fawcett (a Professor of Political Economy at Cambridge, a Member of Parliament and reputed to be pro-Indian in sympathy) : "The worst of all things for a state as well as for an individual is, by living beyond its means, to burden itself with a load of debt".[151] The bogey of 'government bankruptcy', the orthodox Victorian public financiers said, loomed ahead if the government did not avoid raising loans as far as possible.[152] The terms at which the Government of India was able to borrow in the London money market were favourable and would have been still better if there had been an Imperial Guarantee. But just as a private business unit or individual cannot go on borrowing without affecting its credit in the market, it was argued, on government can borrow on a large scale without running a similar risk. The prevailing

opinion was that the Government should avoid borrowing as far as possible. If loans were raised, they should be applied only to 'remunerative' irrigation works so that the interest charges may be taken care of.

This attitude is reflected in the exchange of letters between the Government of India and the Secretary of State in 1864-65. In August 1864 the Secretary of State called upon the Government of India to pay more attention to irrigation works than had hitherto been possible due to the financial stringency of the post-Mutiny years. The Secretary of State expressed his readiness to borrow if necessary.[153] The Government of India put forward a plan of raising a loan of forty or fifty million sterling, the whole sum to be spread over several years and distributed for irrigation projects in different parts of the country.[154] This plan did not meet with the approval of the Secretary of State, because it did not contain precise estimates of proposed works and virtually suggested that a large sum should be borrowed in England and placed at the disposal of the Indian Government.[155] The Secretary of State declared that he was prepared to sanction minor works of irrigations costing small sums (below £ 30,000) which, experience showed, yielded better return for the outlay. But large works requiring years to complete and a large outly were not to be undertaken till the financial implications were fully investigated. In this connection the Secretary of State laid down an important principle. "It is only on condition that works of irrigation should be so constructed as to be remunerative to the extent of at least defraying the interest of the capital expended in constructing them, that in the present financial state of India, they can properly be undertaken". The Indian Government was mistaken, the Secretary of State commented, in thinking that borrowing was a simple solution to the problem of finding funds for irrigation works. The Home authorities had to consider other factors such as the volume of interest charges and the condition

of the London money market. The Secretary of State ended the despatch on an inconclusive note : "I am not at all prepared to say that further taxation should not be imposed, for the purpose of meeting part of this contemplated expenditure ; but at any rate it is impossible to determine at present what amount it may eventually be determined to borrow, or when it will be required. I certainly do not consider that I should be justified in raising a large loan at present, nor am I prepared to announce that I will borrow money in future years . . . ."

These excerpts have been given to show the hesitant and over-cautions approach of the Home authorities to the question of government borrowing. The famine of 1865-66 which was particularly severe in Orissa came as a shock. "I have no doubt", Secretary of State Cranborne wrote to Viceroy John Lawrence, "the late famine will have brought home to most people the fact that delay in the construction of most of these [irrigation] works means the periodic loss of vast masses of human beings, and of all the productive power they represent".[156] Cranborne asked Lawrence "to infuse all the energy" he could into the Public Works Department in order to give India irrigation. Irrigation should be given priority over roads and military works none of which were so badly and so immediately needed as irrigation works. The Government was spending large sums to build barracks for Europen soldiers while irrigation works were starved of funds, It was, Cranborne said, unjust to prefer "the comfort of the soldiers to lives of considerable masses of the population—or , at best, supposing no famine for several years to come—to the most urgent necessities of the cultivation of the land".

From 1866 a distinct change in the attitude of the Home authorities is noticeable. In August 1866 the Secretary of State expressed his willingness to borrow for productive works, for irrigation was "of vital importance to the progress of India".[157] The raising of a loan for public works

expenditure in 1867-68 was proposed by Government of India and promptly sanctioned by India Office.[158] Cranborne understood that it was "truer thrift" to borrow for irrigation works "than an effort to avoid borrowing by abstaining from improvement".[159]

The Government of India, sensing the change in the attitude of the Home authorities, now proposed that all expenditure for irrigation works would in future be met with loans. Charges for "reproductive" irrigation works would be, the Government of India proposed, excluded from the budget showing revenue and expenditure; these charges to be met with loans, would be treated as charges against capital and only the interest charges would be shown in the budget. Further, heavy outlay for special Public Works like Military barracks, jails, roads, etc. would be shown as 'Extraordinary' charge which would be met partly from revenue and partly with loans.[160]

The Secretary of State could not accept this proposal in toto. He thought that it would be unwise to remove the charges for irrigation works from revenue account to 'Debt'. He instructed the Government of India to include irrigation works expenditure in the annual financial balance sheet as an 'Extraordinary' charge, along with other 'Extraordinary' charges such as expenditure for the trunk roads, military barracks etc.[161] Subsequently this decision of Cranborne was altered in an important respect by his successor Northcote. The latter was of opinion[162] that "as a general rule all works should be treated as 'ordinary' excepting those which may be expected to prove directly remunerative. That is to say, capable of yielding a profit beyond the interest on their cost . . ." Now, military barracks, roads, embrankments and jails could not be classed as remunerative. Therefore these were all excluded from the category of 'Extraordinary' Public Works; expenditure for those works (military works, roadways jails etc.) must be paid for out of revenue of the year. Irrigation works alone

were to be provided for by raising loans and were to be shown in budgets as 'Public Works Extraordinary'.[163]

Thus, eventually, it was decided that (a) for 'reproductive' or remunerative irrigation works—classed as 'Extraordinary Works'—the government may borrow; (b) and, for non-remunerative works such as military works, roadways jails, embankment—classed as 'Ordinary Works'—the government may not ordinarily borrow. The only instance of borrowing for non-remunerative works was the £ 1 million loan raised in 1867-68 for construction of Military barracks.[164]

Col. Richard Strachey was placed at the head of the newly created Irrigation Branch of Public Works Department in 1867.[165] At his instance in 1869 the Indian Government submitted to the Secretary of State a plan envisaging an expenditure of a minimum of Rs. 30 crores in the next years, the entire sum to be raised by means of loans and expended on irrigation works.[166] This was actually a moderate estimate because Governor-General Mayo was reluctant to embarrass his Government with enormous interest charges.[167] The Secretary of State cautioned Mayo not to go in for works on an axtravagant scale without data on cost and profitability.[168] Argyll did not wish to discourage the new irrigation schemes, but would rather have the Indian Government build relatively inexpensive and remunerative works[169] He also advised Mayo to reduce expenditure on 'ordinary' Public Works, now that charges for 'extraordinary' works were increasing.[170] That the government persued such a policy is evident from the fact that the proportion of outlay on ordinary Public Works to total expenditure declined from 12.3% in 1868-69, to 10% in 1867-70, 8.2% in 1870-71 and a mere 5.3% in 1871-72.

The inadequacy of resources was aggravated by wasteful expenditure in the Public Works Department. The *Friend of India* compared the Department to a rotton borought which had somehow escaped reform. The native and verna-

cular newspapers complained that the Indian Government and the taxapayers did not get their money's worth; much of the public works funds, it was alleged, was frittered away wastefully.[171] There were also charges of corruption at the lower level, jobbery in the distribution of contracts, and careless supervision by the European engineers.[172] In 1871, when the East India Finance Select Committee commenced its investigation, representations were made from the Bombay Association to attract the Committee's attention to this problem.[173] Towards the end of the 'sixties vigorous efforts were made to check wasteful expenditure. Much waste was due to starting work without sufficient survey and collection of data.[174] In a resolution in September 1869 the Governor-General in Council noted with concern that "irregular" expenditure without sanction had increased. The Government enjoined the officers not to commence work "without sanctioned estimates or without appropriation being first provided.[175]

Establishment charges in India, it appears, was four to five times than in the United Kingdom. This was mainly due to the employment of highly expensive military officers for civil works and the employment of Europeans for unimportant supervisory work which could be left to the subordinates.[176] In the 1860's in an average year the ratio of establishment charges to total expenditure on (ordinary) public works exceeded 18%.

From the year of the Mutiny up to 1859-60 expenditure on Military Works, naturally enough, was unusually high. In the period 1860-65 the average annual expenditure was at a relatively low level, about Rs. 0.72 crore. In the second half of the decade the average yearly expenditure on military works was Rs. 1.59 crore. The adoption of a plan of building new military barracks at certain strategic points all over India partly accounts for this rise. The Government of India, in accordance with the recommendation of the Royal Commission on

Health in the Army, decided in 1865 to undertake construction of new barracks for Europen soldiers.[177] After the Mutiny the decision to maintain a high proportion of European soldiers in the Indian Army (as a safeguard against another rebellion among native soldiers) made construction of new barracks for Europeans unavoidable. The 'sanitary craze' of the day raised the standards of sanitation and expectations of creature comforts, and military buildings on the modern specifications were very expensive to build and maintain. The Home authorities urged that "if the natural desire to secure the well being of troops were not sufficient reason for adopting these measures, the mere pecuniary benefit that must result to the Government from prolonging the state of efficiency of our European soldiers" would amply justify the increased expenditure.[178] The new barracks were originally estimated to cost £ 10 millions.[179] The estimate was later revised and raised to £ 11,370,000, the whole to be spread over five years (1865-66 to 1869-70).[180] This was a heavy burden for a government which, more often than not, failed to make both ends meet. The Governor-General in Council wrote to the Secretary of State in September 1868 : "If the expenditure on Military Works be deducted, the outlay on other public works ordinary, such as roads, communications, public buildings and the like—so far from increasing—have considerably decreased, and we have been constrained by financial necessity to curtail our expenditure on these last-named works . . ." The Government of India admitted that this trend of expenditure did not contribute "to the general improvement of the country".[181] This fact exposed the Government to much criticism. The 'native' i.e. Indian papers complained that huge sums were being spent to keep the European soldiers in comfort and luxury while works of public utility were starved of funds.[182]

In order that a larger proportion of revenue may be devoted to development expenditure—roads, canals and works of public

utility—it was suggested that the expenditure for Military Works should be met by raising loans. The question whether Government should borrow for the construction of military barracks became a subject of acute controversy.

In January 1865 the Government of India in a confidential letter to the Secretary of State observed that the additional expenditure on account of military barracks on top of the expenditure for civil public works, repairs and maintenance of old civil and military works, and railway expenditure was an insupportable burden. It was "impossible" to provide for all this from current revenue "without an increase of taxation which would interfere with the prosperity and contentment of the people".[183] And it was unjust to impose on the existing generation the entire burden for works which were intended for the public service for all time to come.

Time and again the Government of India suggested that the Secretary of State should raise a loan, the cost of military barracks partly to be met with loans and partly with current revenue.[184] Thrice in 1865-66 the Secretary of State was requested to raise £3,000,000 for military works, by annual loans during the three successive years. The question was "whether we shall resort to special and temporary taxation . . . or whether we shall divide the burden with posterity". The latter course of action was better since the military works alone caused a deficit in the budget.[185]

The Government of India also put forward another suggestion. It was proposed that heavy outlay for all Public Works, including military barracks, should be shown in accounts as 'Extraordinary' charges which should be treated as charges against capital. The Extraordinary charges, it was suggested, sould be excluded from the annual statement of Revenue and Charges, and shown separately in the statement of Cash Balances as 'Debt'.[186]

In 1867 the Secretary of State was at last persuaded to raise

a loan of £ 1 million, but Cranborne refused to commit the Government regarding the Indian Government's proposal to borrow similar sums in the two following years.[187] Secretary of State Cranborne also agreed to the removal of 'Extraordinary Charges' from 'Current Account' to 'Debt'. He agreed that charges for military barracks should be classed as Extraordinary Charge.[188]

Subsequently, however, both these decisions were somewhat modified. Northcote, who succeeded Cranborne in India Office, ruled that charges for Military works must be removed from the 'Extraordinary' category. Only Irrigation Works were to be removed from the Current Account to Debt. He was of opinion that the exclusion of the charge on account of barracks and other non-remunerative works were "calculated to encourage erroneous views of the actual financial position of your Government," by unduly reducing the amount which should be provided for Public Works out of the income of each year.[189] So the Government of India transferred charges on account of Military Works (as well as those for roads and embankments) from the head of 'Extraordinary Charges' to 'Ordinary Charges' (i.e. charges to be met with revenue).[190] Further, in accordance with the instructions of the Secretary of State the Finance Member, W. N. Massey, declared on behalf of the Indian Government that the expenditure for barracks construction would be provided from current revenue and no more loans would be raised for the purpose.

Several members of the Governor-General's Council, including the Military Member and the Commander-in-Chief, protested against this reversal of policy. Sir W. R. Mansfield said that the authorities were putting the clock back, for the development expenditure would have to be reduced if Military Works charges were to be met out of revenue instead of loans. By refusing to borrow the Government was reverting to an antiquated policy which would entail procrastination

in construction work.[191] Major-General H. M. Durand pointed out that Northcote's "eminently retrograde" decision forced the government to retain the unpopular business tax known as Licence or Certificate Tax. The Government of India "retards general progress in India by the check given to the free and healthy flow of British capital . . . It does so at a time when British capital is in search of secure and profitable investments".[192]

The Governor-General Sir J. Lawrence, John Strachey, the Home Member, and W. N. Massey tried to defend Northcote's decision. Lawrance thought that it was "undoubtedly a serious evil to be compelled to incur debt".[193] John Strachey concurred. For non-remunerative works like barracks the Government would borrow only when it was impossible to meet the charges out of revenue, but not otherwise.[194] This view ultimately prevailed. Durand and Mansfield recorded their minutes of dissent but, according to 'cabinet principles', they were "bound as members of the same government not to offer opposition before the public of India".[195]

To sum up, the policy of the Indian Government was to pay for Military Works as far as possible out of current revenue, and to borrow no more than could be avoided. The loan in 1867-68 was a partial departure from the principle of defraying this charge from revenue of the year. Northcote was not prepared to relax the rule, as Cranborne had done, because he was unwilling to allow the Indian Government to borrow except for remunerative irrigation works (which would pay to meet the interest charges on capital outlay). Therefore, from 1868-69 the government depended entirely on revenue to pay for Military Works. This, as the Government of India observed in despatch of 1868, forced the Government to resort to direct taxation in various forms, the License Tax, the Certificate Tax and the Income Tax. In the same despatch the Governor-General in Council wrote with unusual candour : "it might at first sight

appear that we are now doing as much as we ever were doing for the general improvement of the country. But in reality . . . of late years the proportion of our military expenditure has much increased, which expenditure does not conduce directly to the growth of national wealth . . . [196]

V

At the beginning of this chapter, while reviewing the chief items on the expenditure side of the accounts, are noticed that the Military Charges accounted for about one-third of the total expenditure of the Indian Government and the Public Works Charges for about fifteen per cent. That is to say, nearly half the expenditure was on account of the army and the public works. Expenditure on account of civil administration accounted for another one-third : aggregated under this salaries of covenanted and uncovenanted civil servants and establishment charges; charges of revenue collection; expenses under the head 'Law and Justice'; expenses for Political Agencies in Indian native states and abroad; superannuation and compassionate allowances; and furlough and absentee allowances to European Civil Servants. The Civil Charges were increasing throughout the period under review. One cause of this we have already noted more than once—the general rise in prices and wages in India. The other cause was the demand for improved administration : "the whole paraphernalia of a great civilised administration, according to the modern notions" had to be provided.[197] Thus on the one hand new departments were created, old establishments were expanded, branches of service were reorganized and developed and on the other hand old scales of salary were revised amenities to civil servants (particularly European officers) were increased and a variety of new expenses were incurred on account of the wage and price rise.

The native judges and the subordinate native officials in the courts were paid an extremely low salary : the average pay was below Rs. 250 a year and the highest paid officials received a mere Rs. 1800 a year. During the Viceroyalty of Lawrence salaries in the judicial service were revised, at first in Bengal Presidency and then in other provinces ; this was one of the measures introduced by Lawrence, with the aid of John Strachey (who investigated the matter and recommended an increase of salaries).[198] The increase in salaries of uncovenanted judicial services led to a similar revision of salaries of all uncovenanted servants. There were reports in the Press that the uncovenanted servants were suffering on account of "the rapid depreciation of the purchasing power of money".[199] The uncovenanted civil servants sent a petition to the Governor-General pointing out that the scale of salary and pensions were insufficient to attract qualified people at a time when "various new fields of profitable employment [were] opening up in India".[200] The Government was quite aware that the salary question could not be decided merely on the basis of precedents without reference to "the actual facts of the wages market".[201] It was noticed that many competent public servants were leaving Government Service to join commercial firms and banks.[202] As a matter of fact, the Bombay Government, since 1863, was paying "grain batta" to officials receiving less than Rs. 200, perhaps one of the earliest instances of what is today known as a dearness allowance.[203] From 1865 to 1867 by a series of revisions the salaries of civil subordinate services were increased in almost all parts of India.[204]

A large number of Europeans and Eurasians were employed in the uncovenanted civil services : they demanded pensions and furlough allowances which cost the Government a good deal of money.[205] The Secretary of State wanted to prevent "the springing up of an uncovenanted service in which all the higher appointments [were] . . . appropriated by

Englishmen." According to a survey conducted in 1868 the number of Indians employed by the Government (in civil administration) drawing a monthly salary of more than Rs. 100 was only 4,039; of these the majority (3,898) were paid Rs. 500 or less and only 15 in the whole of India were holding posts with a salary of Rs. 1000 or above.[206] These figures explain to some extent the ire of the new educated middle classes in India against the employment policy of the Government. The critics of the Government's employment policy could also strengthen their case by pointing out that the employment of British administrators was proving excessively costly to the state. The head of charge called 'Civil Furlough and Absentee Allowances' was almost entirely due to the British civilians who, it was said, needed to recuperate in England after a period of service in the tropical climate. The expenses for furlough allowances, amounting to £ 72,000 in 1863-64, more than doubled and increased by about a million in ten years.

Among Government pensioners drawing Superannuation Retired and Compassionate Allowance', Indians predominated in number, but the larger portion of the money went to Europeans: the pensions were, of course, in proportion to the scale of salary during service. The increase of expenditure under this head—about half a million in a decade (1863|64-1872|73)—was not anything out of the ordinary. Perhaps the increase would have been steeper if the authorities in England had not resisted strongly any tendency to increase "non-effective civil expenditure". In 1868 an agitation was started by Covenanted Civil Servants in the three Presidencies: memorials were presented to the Secretary of State representing that the pensions must be increased.[207] The changes proposed in these memorials meant an additional expenditure of between £ 78,000 and £ 153,000 per year; the Government of India, desirous of "putting an end to this agitation", recommended

increase of pensionary allowances.[208] But the Secretary of State—unanimously supported by his Council[209]—refused to sanction increased expenditure in this regard. There was no ground for increasing allowances : "there is no other service in the Empire, probably in the world, which is so liberally dealt with".[210] The only concession the Secretary of State made was that covenanted civil servants who had completed 25 years service and 21 years residence in India were assured of a minimum annual pension of £ 1000 on retirement.[211] In his private letters to Mayo, Argyll expressed his displeasure at the "agitation of the Civil Service to enlarge their own privileges and pensions".[212] Argyll was forthright in condemning the motives of self-interest, which led the Indian Government to confer various expensive privileges to covenanted European Civil Servants. "Except the Viceroy, the Commander-in-chief and the Law Member every member of the Government of India [i.e. Governor-General's Council] is a Civil Servant. They are all pensonally interested in the question".[213] The Civil Servants were under the influence of a very natural 'Esprit de Corps' and it was difficult for the Governor-General to resist the whole body of his officials all over India urging him to increase their pensions.[214]

Attempts were made from time to time to reduce civil expenditure. A Civil Finance Commission, headed by R. Temple, was appointed during Canning's Viceroyalty. After a long and detailed enquiry (July 1860 to March 1862) the Commission suggested reductions under various heads of charges effecting a saving of about Rs. 1.2 crores : not all the recommended reductions were acceptable to the Government, but reduction of nearly a crore was possible.[215] Reduction measures were not very popular with the official classes.[216] In 1869-70 Mayo made another effort to reduce civil charges : it was, he felt, "the most disagreeable duty which can fall to the lot of a public man, viz. an onslaught on extravagance and an

attack on 'interests', unnecessary offices and useless people generally".[217] The official class resisted economy measures. The official view was that civil charges were bound to increase if the Government paid attention to "the duties and necessities attendant upon British rule".[218]

The Interest Charges of the Indian Government in India and England accounted for more than one-tenth of the total expenditure. The charges were on account of various types of debt. The debts could be divided into three broad categories: (a) permanent debts, (b) floating or temporary debts and (c) unfunded debts. The floating debt consisted of treasury bills issued to the public or the Paper Currency Reserve; these were for less than a year as a rule but sometimes they were renewed from time to time and sometimes the holders of treasury bills were offered the option of converting them into others stocks—thus converting a temporary loan into a permanent one.[219] Wilson used this last method to convert a debt for payment of which the Government might have been called upon at short and uncertain times into a debt of a more fixed character.[220] The unfunded debts were post office cash certificates and deposits of civil and miliatry service funds. These debts and debt on account of treasury bills were not very large in amount and here we shall be chiefly concerned with the permanent debt.

The permanent debt was generally divided in the accounts into two types: (1) Ordinary debt or unproductive debt and (2) Productive debt. The latter included loans for irrigation, railways and other public works; they were called productive debt siince, it was expected, the investment would yield a revenue (water cess, railway receipts and the like) to meet the interest charges of capital borrowed and invested. "Ordinary debt" represented the liabilities and obligations inherited from the East India Company and other debts which accumulated during and after the Mutiny.

The "Ordinary debt" of India amounted to £ 49.2 million in 1856. Under Sec. 42 of the Act for the Better Government of India, 1858, the dividend on the capital stock of the East India Company, and all the bonds, debentures and other debt of the Company in England together with the territorial and other debts of the Company were chargeable upon the revenues of India. During the Mutiny and in the years immediately following this debt increased by leaps and bounds. The total debt of the government in England and in India increased from £ 59.4 million (1857) to £ 98.1 million (1860).

Till the arrival of Wilson the Indian Government was unable to devise a financial policy to deal with the financial crisis precipitated by the military expenses of the Mutiny. Until the full effect of reforms initiated by Wilson could be felt the Government had to resort to loans frequently : by 1861-62 the total debt had swollen to £ 107.5 million. In 1863-64, thanks to the efforts of Charles Trevelyan, this tendency was checked. In April 1864 the Government of India reported to the Secretary of State that debt had been reduced by about £ 9 million in the last two years, cheifly out of Cash Balances. In England some East India bonds were paid off (£ 256,000), loans on security of East India bonds were repaid (£ 1.5 million), and about £ 5.5 million of debentures were paid off. In India £ 1.1 million of Government securities were purchased out of Cash Balances and proceeds of sale of waste lands, Tanjore debts and debts to the Raja of Kashmir were repaid and various other obligations were cleared.[221] Moreover, the items of the debt account were scrutinised and various trust funds, civil and military servants' deposit funds and local funds deposited with the Government of India were separated from the Public Funds proper.[222] Thus the debt was reduced to smaller and more orderly proportions. The debt remained fixed in the neighbourhood of £ 98 millions until 1865-66. From that year it went on increasing until, in 1871-72 reached the

formidable figure of £ 121.7 million. The Government of Lord Mayo was concerned at this development and resolved to meet all ordinary expenditure from revenue and to refrain from borrowing.[223] Richard Temple, during his sojourn in England, came in touch with Prime Minister Gladstone who advised Temple on the modern principles of debt management: following his advice Temple reduced the interest on a portiotn of the debt by offering the stockholders the option of having their principals repaid or accepting a lower interest rate.[224] Some more debts were liquidated by paying off at par five year old debenture loans.[225] The successful conversion of the 5% interest loans to 4% by Temple indicated that the credit of the Government was "gradually approaching a point where we could reckon on borrowing a reasonable amount at four per cent."[226] Later on the Government was able to convert more of its 5% loans to 4%. However, old debts could not be liquidated easily and all Mayo and his Government could do was to try to arrest what Mayo believed to be "the greatest Indian danger", accumulation of an unmanegeably large debt.[227]

The burden of interest charges weighed heavily in the calculations of the authorities. They did not fully appreciate the productive results that could be expected to follow from investment in public works. A prejudice based on a false analogy between public and private borrowing and the fear of 'Government bankruptcy' stood in the way of large scale borrowing for development.[228] There was, however, a school of thought which advocated government borrowing for irrigation works. Sir Arthur Cotton wrote in 1854: "The current revenue never can provide money for great public works, to make the one wait for the former is to put the cart to draw the horse . . . nothing but the public works can produce increase of revenue".[229] Public opinion in India was in favour of government borrowing for Public Works development. The *Times of India* observed that the prejudice against borrowing was the

bane of Indian finance.[230] The *Indian Economist* asserted that Public Works outlay should be three times what it was, and this expenditure must be provided for by means of short term loans.[231] Some "native" i.e. Indian owned vernacular newspapers, took up the cry.[232] The East India Association in their memorial to the House of Commons in 1871, demanded that it should be reconsidered whether "the cost of Public Works in a country which, though rich in resources, is exceedingly poor in capital, is still to be defrayed out of current revenue, or whether it is to be met by a proper system of loans and sinking funds . . ."[233] The Bombay Chamber of Commence wrote to the Viceroy in 1870 desiring that expenditure for "public works of a permanent character should be provided for by means of short loans chargeable on the revenue and redeemable at fixed dates . . ."[234] T. B. Jeffries, in his pamphlet on *National Credit and Public Works,* recommended "a free and judicious use of national credit" for "the system of paying for public works out of revenue acts, virtually, as a sort of prohibition on the construction of new works . . ."[235] Robert Knight, the founder of the first Indian economic journal, tried his best to remove the prejudice against public borrowing. The Indian Government, he argued, should, like any landlord with an improveable estate, borrow and look to the improvement of the country and increase in revenue to justify the expenditure.[236]

Thus there was a considerable body of opinion advocating public borrowing to develop public works. Yet the policy of the Government was to avoid borrowing as far as possible. Even when it was decided to raise loans, the Indian Government was hedged in by numerous conditions imposed by the Secretary of State. The most important such condition was that funds raised by loans should be applied only to 'remunerative' works. The argument was based on a false analogy : just as a private business unit cannot afford to borrow unless the investment was productive (to pay interests on the outlay and repay the

loan), the Government should not raise loans for other than remunerative purposes.[237]

It must be conceded that there were some weighty arguments against government borrowing on too large a scale. Instead of raising domestic loans the Indian Government was borrowing from foreign lenders. The interest charges on foreign-held debts were considerable. Borrowing of this nature is of course different from domestic borrowing where interest payments are made to lenders within the country. Argyll exhorted Mayo to "get at the native capitalists. I regard it as a matter of high political importance that we should interest the natives of India in the Indian Debt......"[238] Such was also the advice given to Lawrence by Sir Charles Wood.[239] But the Indian Government continued to draw upon the London money market. Mayo pointed out a reason why there were so few native subscribers to Government loans. "We cannot at present get money here. A native money lender expects and gets 10. 15 or 18 per cent for his money on fair security . . . Therefore for many years we must draw our loans from Europe", offering only a 4 per cent interest.[240] The other factors mentioned in this connection were the "increasing competition for our loans by European capitalists", the native capitalists "increasing craving to possess land" (especially in Bengal) and the decay of the old feudal classes who had large investible funds in the past but had become impoverished.[241] The Government of India considered it "out of the question to attempt to encourage Native investors by offering them in any shape better terms than we offer Europeans". The Government did raise loans in India from time to time according to the state of the money market (which depended on the season of the year and agricultural conditions).[242] But on the whole, the Indian Government repeatedly said, loans could be raised in the London money market with greater ease and convenience.[243] In 1867 an interesting scheme to tap small savings in India, to

provide funds for irrigation works, came up. The Bombay Government proposed to raise loans in sums as low as Rs. 40 or Rs. 50 under terms which would admit of subscriptions being paid in district treasuries. "The object of the scheme is to render the advantages of Government loans accessible to those of the agricultural and other classes, who now usually hoard their savings, or dispose of them by lending to private parties on very bad security".[244] This proposal was rejected by the Secretary of State who anticipated technical difficulties in the management of debt contracted in very small sums. In this unimaginative fashion an excellent plan for utilising idle small savings for public works development was smothered.

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2 The assessors and collectors of direct taxes were temporary staff recruited as the need arose.

3 vide *Appendix.*

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5 Secretary of State to Government of India Fin. no 6, 19 Jan 1859

6 Secretary of State to Government of India Fin no 9, 31 Jan 1859

7 Secretary of State to Government of India Fin no 28, 22 Feb. 1859.

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13 Fin Progs Oct 1861 no. 197 Military Finance Department to Financial Secretary, Government of India, 22 Aug 1861 Fin. Progs Aug. 1861 Accts. no. 1. Military Finance Department to Financial Secretary, Government of India, 15 June 1861. Fin. Progs Sept 1861, Accts no 168 Resolution by Government of India 19 Sept 1861.

14 Vide Appendix.

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38b Argyll to Mayo, 9 Dec. 1870, Mayo Papers, bundle 48, no. 33.

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47 Argyll to Mayo, 10 Feb. 1871, Mayo Papers, bundle 49, no. 3

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146 Cranborne to J. Lawrence, 3 Nov 1866, Lawrence Papers, Letters of Secretary of State to J. Lawrence, Vol. III, no. 39.

147 Strachey, *India, its administration and progress* (London, 1911) pp. 228-234. William T. Thornton, *Public Works in India* (London, 1875). Sir A. Cotton, *Public Works in India* (London, 1854).

148 L. H. Jenks—*The Migration of British Capital* (London, 1938) p. 208. According to the statement of Ross D. Mangles of the East India Company, between 1834 and 1848 the Company had spent only £1,434,000 in Public Works in India out of an annual revenue of twenty million pounds a year (ibid p 208). Speaking in 1858 John Bright said that the "single city of Manchester, in the supply of its inhabitants with the single article of water, has spent a larger sum of money than the East India Company spent in the fourteen years from 1834 to 1848 in public works of every

kind throughout the whole of its vast dominions." (Quoted, J. Strachey, *op. cit.* p. 233).

149 See Appendix.

150 Govt. of India to Secretary of State, Fin. Despatch no. 239, 18 Sept. 1868.

151 *Indian Finance* (London, 1880) p. 155.

152 Vide the polemical pamphlets by L. C. Probyn, *Is India Solvent?* (London, 1880) and W. M. Thorburn, *India Solvent* (Madras, 1880,). Probyn, much more clear sighted than Professor Fawcett, recognised the "difference between the balance sheet of an individual and that of a Government" *op. cit* p 13.

153 Secretary of State to Government of India, Public Despatch no. 39, 8 August 1864.

154 Government of India to Secretary of State, P. W. Despatch no. 29, 9 March 1865. Government of India to Secretary of State, Sep Rev. Despatch nos. 13 & 14, dt. 7 & 8 April 1865.

155 Secretary of State to Government of India, 30 November 1865. Exp 236 of Fin. Progs Jan 1866.

156 Cranborne to J. Lawrence, 3 Nov. 1866 John Lawrence Papers, Letters from Secretary of State to J. Lawrance Vol III. no. 39.

157 Secretary of State to Government of India, Financial Despatch no. 200, 23 August 1866.

158 Government of India to Secretary of State, Financial Despatch no. 210, 21 Sept 1865 Secretary of State to Government of India, Fin Despatch no. 263, 9 November 1866.

159 Cranborne to J Lawrence, 3 Nov. 1866, J. Lawrence Papers, Letters from Secretary of State to J Lawrence, Vol. III, no. 39.

160 Government of India to Secretary of State, Financial Despatch no 255, 20 Dec 1866 Although the authorities emphasised the remunerative nature of irrigation works, it was virtually impossible for them to determine the extent to which an irrigation work was remunerative. For instance, would the increase in land revenue as a result of irrigation facilities be shown as profit from Public Works investment? In Madras an irrigation work was credited with the whole difference between the amount of land revenue after construction of the work and the amount obtained before construcion. Hence Madras irrigaion works show a high rate of return In the North West Provinces an Irrigation Work was credited simply with the water rate paid for fields irrigated So the return, on paper, appeared to be low, though the government gained in land revenue. (Home Progs. Revenue, 28 May 1870,

no. 15(7). Report by Col. R. Strachey dated 2 Sept. 1869) Between 1857-58 and 1862-63 some Madras irrigation works yielded a net income, after paying 4% interest on capital, ranging from 0.3% to 29.9% while others show net charges varying from 0.3 to 54.3%; on the whole the works were profitable. But in North West Provinces in the same period there was considerable loss (Secretary of State to Government of India, Financial Despatch. 266, 30 Nov. 1865).

161 Secretary of State to Government of India, Financial Despatch no. 79. 28 Feb. 1867 In the Budget for 1867-68 the charges for irrigation works had already been removed from current account to debt. (Govt of India to Secretary of State, Fin. Despatch no. 73, 8 Mar 1867). On receiving the Secretary of State's despatch of the 28 Feb 1867 the Government of India altered the Budget statement; (a) expenditure on irrigation works was removed from 'Debt' and included under the head of 'Extraordinary charges'; (b) grant for 'Jails' was, according to instructions from India Office, deducted from 'Extraordinary Charges' Such changes in accounting procedure make comparison of Indian financial statistics extremely difficult

162 Secretary of State to Government of India, Financial Despatch no. 220, 14 June 1867

163 Secretary of State to Government of India, Financial Despatch no. 288, 9 July 1868. According to instructions the Government of India classed all charges for Military Works, Communication, Embankments and Jails as 'Ordinary Expenditure'—the whole burden was thrown entirely on the revenue of the year. Only Irrigation and Special Funds Works were classed as 'Extraordinary Expenditure'—the charges to be met with loans (Government of India to Secretary of State Fin Despatch no 283, 21 Oct. 1868; no 013, 33 Nov. 1868).

164 Secretary of State to Government of India, Financial Despatch no. 72, 25 Feb 1867.

165 Fin Progs Jan 1867 Exp no. 193, Resolution by Governor-General in Council in Public Works Department, 22 Jan. 1867; no 194, Resolution in Finance Department, 31 Jan. 1867

166 Fin Progs Jan. 1869 Accts no 15 Secretary of State to Government of India, Finance Despatch no. 477, 23 Dec 1867.

167 Mayo to Argyll, 16 Mar. 1869, Mayo Papers, bundle 34, no. 102.

168 Mayo was of the same opinion.

169 How far an irrigation work was remunerative it was difficult to determine. vide f n. no 160.

170 Argyll's letters to Mayo of the 12 Feb. 1869 (bundle 47, no. 7) and 17 Jan. 1870 (bundle 48, no. 1) contain his views on public works.

171 *Friend of India,* 10 Oct. 1861. *Vritta Prakash,* 2 May 1868 (R.N P. Bombay, 1868, p 31). *Hindu Reformer,* 1 Nov. 1869 (R N.P Bombay, 1869, p 554). *Dnyan Prakash,* 15 Nov. 1869 (R.N.P Bombay, 1869, p 586). *ibid,* 22 June 1868 (R N.P Bombay, 1868 p 134). *Assam Mihir,* 28 May 1873 (R N.P. Bengal, dt. 14 June 1873) *Sangbad Poornachandrodaya,* 8 July 1868 (R N P. Bengal, 1858, p 147). *Prayag Doot,* 15 July 1868

172 *Som Prakash,* 23 Nov. 1868 (R N P. Bengal, 1868, p. 343). *Hindu Reformer,* 1 Dec. 1869 (R.N P Bombay, 1869, p. 604). *Sunday Review,* 6 May 1870 (R N P. Bombay, 1870, p 134). *Dnyan Prakash,* 27 July 1868 (R N P Bombay, 1868, p 211).

173 Representation from Bombay Association and native inhabitants of Bombay Presidency (1871). P.P.H.C. 1871, vol. 8 cd. 363, App. p. 511.

174 Mayo to H Bartle Frere, 21 Aug. 1869, Mayo Papers, bundle 36, no 208.

175 Fin Progs Sept 1869. Accounts no. 54, Resolution by Government of India, Public Works Department, 11 Sept 1869.

176 P.P.H C 1871, vol 8, ed. 363 Finance Select Committee Progs. Evidence of Mr. Geddes (9968-71). Alexander R. Binnie, *Public Works in India · A letter addressed to the Right Hon. W. E. Gladstone M P. and other Members of Her Majesty's Govt.* (London, 1881) Binnie, a former employee of the Indian Public Works Department, says that whereas in England civil engineering charges were 5 to 6% on the value of the work executed, in India 25 to 30% was paid as establishment charges.

177 Government of India to Secretary of State, Public Works Despatch no 67 dated 30 June 1865 ; and no. 3 dated 6 Jann. 1865. Government of India to Secretary of State, P.W.D. (Military) Despatch no. 34 dated 17 Mar. 1865; no. 52 dated 11 May 1865; and no 108 dated 30 Aug. 1865

178 Secretary of State to Government of India Fin. Despatch no. 252, 8 Nov 1865

179 Government of India to Secretary of State, Fin Despecth no 10, 12 Jan 1865 (confidential).

180 Secretary of State to Government of India, Fin. Despatch no. 252, 8 Nov. 1865. The estimated expenditure in each year under this head were as follows :—

1865-66	..	£ 1,270,000
1866-67	..	£ 2,000,000
1867-68	..	£ 2,800,000
1868-69	..	£ 2,800,000
1869-70	..	£ 2,500,000
1865-66	..	£ 1,270,000

181 Government of India to Secretary of State, Financial Despatch no. 239, 18 Sept. 1868.

182 *The Rast Goftar* (Bombay) · jealously regarded the "lavish" expenditure on Europeans' barracks (*Rast Goftar,* 30 Oct. 1870, Report on Native Press of Bombay, 1870, p. 525). It was characterised as a case of gross "partiality" (*Rast Goftar,* 24 Oct. 1869, R N.P. Bombay, 1869, p. 543). Also *Som Prakash,* 7 Nov 1864, R N.P. Bengal, Report of 14 Nov. 1864).

183 Government of India to Secretary of State, Financial Despatch no. 10, 12 Jan. 1865 (Confidential).

184 Government of India to Secretary of State, Financial Despatch no. 210, 21 Sept. 1866.

185 Government of India to Secretary of State, Financial Despatch no. 258, 20 Dec. 1866.

186 *ibid.*

187 Secretary of State ot Government of India, Financial Despatch no. 72. 25 Feb. 1867.

188 Secreatry of State to Government of Indian, Financial Despatch no. 79, 28 Feb. 1867.

189 Secretary of State to Government of India, Financial Despatch no. 288, 9 July 1868.

190 Government of India to Secretary of State, Financial Despatch no. 283, 21 Oct. 1868. The budget for 1868-69 was altered accordingly; the budget originally estimated a surplus of Rs. 2 4 crores; actually there was a deficit that year of Rs 4.1 crores. Government of India to Secretary of State, Financial Despatch no 313, 30 Nov. 1868.

191 Fin Progs. Mar. 1868 Accts no. 88, Minute by W R. Mansfield, 14 Mar 1868.

192 Fin. Progs. Mar. 1868. Accts no. 87, Minutes by Sir H M. Durand, 13 Mar. 1868. Also Durand's Minute of 23 Mar. 1868,

loc. cit. no. 91 Minute by Durand daetd 17 Aug. 1868 on similar lines. Fin Progs Sept 1868. Accts. no. 164.

193 Fin. Progs. Mar. 1868, Accts no 89, Minute by J. Lawrence 18 Mar. 1868.

194 Fin Progs. Mar. 1868, Accts. no. 90, Minute by J. Strachey.

195 Fin. Progs Mar. 1868, Accts no. 88, Minute by W. R. Mansfield, 14 Mar. 1868.

196 Government of India to Secretary of State, Financial Despatch, no. 239, Sept. 1868. (R N P Bengal, 1868 p 253). *Mufid-i-Alam,* 15 July 1871 (S V N., North West Provinces, 1871, p. 401). *Combaconum Athenaeum,* 17 July 1872 (Report on Tamil Press, dt 31 July 1872). *Hindoo Patriot,* 12 Dec 1870 and 21 Feb. 1870.

197 J. Strachey, Memorandum on some questions of Indian finance. P.P.H.C. 1874, vol. 47, ed. 326, p 245.

198 Government of India to Secretary of State Fin. no. 7, 13 Jan. 1866, same to same Fin no 37, 14 Feb. 1866 Home Progs. 10 Feb. 1866, no 1387. Memoranda by J. Strachey 10, Aug 1865 and 27 Sept. 1865; Minute by Governor-General 7 Oct. 1865; Minute by W N. Massey 29 Dec. 1865. Government of India to Secretary of State, Judicial Despatch no. 30. 4 July 1863.

199 *Indian Daily News* 27 Feb 1866 The rise in the cost of living it claimed had been 100% in 8 years. *ibid* 17 Feb. 1866

200 Fin. Progs. Jan. 1865, Pension & Gratuities, no. 92. The humble memorial of certain uncovenanted servants of Government to the Viceroy, Aug. 1864.

201 Fin. Progs Jan 1865 Expend Miscell no. 415. Minute by the Commander-in-Chief, 30 Nov 1864.

202 Fin Progs Jan 1865. Sep. Rev no. 309. Secretary, Government of Bombay to Secretary, Government of India, 7 Jan 1865.

203 In July 1863 a Commission appointed by Bombay Government recommended the grain batta. Government of India to Secretary of State Fin. no. 22, 5 Feb. 1864. The extra expenditure was irregular but it was approved as a temporary measure. Secretary State to Government of India Fin 118, 16 May 1864. Grain battas were paid till 1867 when salaries were increased permanently Fin. Progs Apr. 1867 Accts no 109 Resolution by Government of India 30 Apr. 1867

204 Government of India to Secretary of State Fin. no. 74, 17 Apr. 1865; Fin. no. 38, 14 Feb. 1866; Fin no. 43, 20 Feb. 1866; Fin. no. 160, 24 July 1866; Fin no. 96, 26 Mar. 1867.

205 Government of India to Secretary of State Home (Public) nos 37 & 42 of 8 & 15 June 1861 Government of India to Secretary of State Fin no 110, 4 Aug. 1862 Secretary of State to Government of India Fin no. 205, 8 Dec. 1862.

206 Home Progs Dec. 1868. Public no. 66. Statement showing the number of natives employed by Government of India.

207 Fin. Progs June 1870, Pensions & Gratuities, no 67 Memorial of Covenanted Civil Servants (Bengal) to the Duke of Argyll; *ibid.* no. 70 & 71. Memorials of Covenanted Civil Servants of Madras and Bombay to Sir S. Northcote.

208 Argyll to Mayo, 11 Apr. 1871, Mayo Papers, bundle 49, no 8.

209 Government of India to Secretary of State, Fin no. 155, 24 June 1870 Same to same Fin no 171, 14 July 1870.

210 Secretary of State to Government of India, Fin. no. 52, 10 Feb. 1871.

211 The regulations were framed accordingly. Fin Progs. Mar. 1871, Pensions & Gratuities, no 17. Resolution by Government of India 31 Mar. 1871. Furlough allowance was paid in England according to the prevailing rate of exchange Fin. Progs July 1871. Pensions & Gratuities, nos 61-62. Later, when the rupee-sterling exchange went against India the Government incurred a loss in cases of pensions fixed in sterling

212 Argyll to Mayo, 3 Mar 1871, Mayo Papers, bundle 49, no. 5.

213 Argyll to Mayo, 11 Apr. 1871, Mayo Papers, bundle 49, no. 8

214 *ibid* Mayo claimed that self-interest had not influenced the decision, since the Civilian members of his Council had refrained from making any remark or recommendation on the point. Mayo to Argyll 23 May 1871, Mayo Papers, bundle 43, no 110 Fearing that Civil Servants might be offended at the tone of the despatch rejecting the application for increased pensions, Mayo requested Argyll not to make it public. Argyll to Mayo 22 June 1871, Mayo Papers, bundle 49, no. 14.

215 Fin. Progs. Apr 15 1862. Miscellaneous no 25. Civil Finance Commission to Financial Secretary 20 Mar. 1862

216 *Friend of India* 8 May 1862; *ibid.* 26 Feb 1863.

217 Fin Progs Nov 1869. Accts. no 48, Memorandum by Governor-General 4 Oct. 1869. Mayo to Agryll 9 Jan. 1871. Mayo Papers bundle 42, no. 13.

218 Government of India to Secretary of State Fin no. 144, 29 June 1860.

219 Fin Progs. May 1860, no. 21. Financial nitification, 27 Apr. 1860; no 23, J. Wilson to Secretary of State, 28 Apr. 1860.
220 *ibid* no 25. Financial notification, 10 May 1860.
221 Government of India to Secretary of State Fin. 53, 9 Apr. 1864. Secretary of State to Government of India Fin. 14, 9 July 1862 and Government of India to Secretary of State Fin. 116, 16 Sept. 1863.
222 Government of India to Secretary of State Fin. 62, 22 May 1863.
223 Government of India to Secretary of State Fin. 240. 20 Sept. 1869. Same to same Fin. 258, 11 Oct. 1869.
224 R Temple *The Story of My Life* (London, 1896) vol. I, p. 201, 208
225 Fin. Progs. Dec. 1871, no. 38. Notification of Government of India, 20 Dec. 1871.
226 Government of India to Secretary of State Fin. (Confidential) no. 130, 16 June 1871.
227 Mayo to Argyll, 27 May 1870, Mayo Papers, bundle 39, no. 141.
228 See IV above.
229 A Cotton, *Public Works in India* (London, 1854), pp. 52-53. Also see 25-29 and pp. 49-52.
230 *Times of India*, 9 May 1863.
231 *Indian Economist*, 11 July 1870. *The Friend of India* alone condemned government borrowing on a large scale. See Editorials dated 4 Dec. 1865, 11 Mar. 1869.
232 *Rast Goftar*, 11 Sept 1870. R.N.P. (Bombay) 1870, p 443, *ibid.* 9 Oct 1870 R.N.P. (Bombay) 1870, p. 491. *Som Prakash*. 30 July 1866; R.N.P. (Bengal) dated 9 Aug. 1866.
233 Petition of the East India Association presented in House of Commons, 17 Feb. 1871, *Journal of East India Association*, vol. V, 1871, Part II, pp. 128-29.
234 Fin Progs May 1870. Sep. Rev. no. 83, Members of Bombay Chamber of Commerce to H E Lord Mayo, 18 Apr. 1870.
235 T B. Jeffries. *National Credit and Public Works*, (Kurrachi, 1871) p. 14
236 R. Knight, *The Financial Statement that should have been delivered and was not* (Bombay, 1870. Published anonymously, p. 42. Knight was the founder editor of the *Indian Economist*.
237 Argyll to Mayo 12 Mar. 1869, Mayo Papers, bundle 47.
238 Halifax (C. Wood) to J. Lawrence, 10 Mar. 1866, Lawrence Papers, Letters from Secretary of State to J. Lawrence, vol. III, no. 13.

239 Mayo to Argyll, 16 Mar. 1869, Mayo Papers, bundle 34, no. 102. Mayo was very accurate in his information. According to L.C. Jain (*Indigeneous Banking in India,* London, 1929, p. 250) interest rate of indigenous bankers varied between 6 and 18 per cent depending on the nature of security.

240 Government of India to Secretary of State, Fin 149, 24 June 1870.

241 Government of India to Secretary of State Fin. (Confidential) no. 130, 16 June 1871.

242 Government of India to Secretary of State Fin no. 16, 5 Feb 1861; Government of India to Secretary of State Fin. no. 37, 13 Mar. 1861 ; Government of India to Secretary of State Fin no. 258, 20 Dec. 1866.

243 Fin. Progs. Jan. 1867. Accts. no 106, Government of Bombay to Secretary of State, 8 Oct. 1866.

244 Fin Progs Jan 1867, Accts no 108, Financial, Secretary, Government of India, to Secretary, Public Works Department, Government of Bombay, 21 Jan 1867.

CHAPTER FOUR

HEADS OF REVENUE : SOME POLICY ISSUES

WHEN the Mutiny broke out the land tenure system in different parts of British India had already solidified in the moulds—shaped by gradual stages since 1765—labelled Zamindary, Ryotwari, Mahalwari etc., each bearing the superficial impression of doctrines of British political economists whose phrases were liberally borrowed in India to furnish essentially pragmatic decision-making with some intellectual pedigree. A study of the land tenure system—which remained substantially unaltered after the mutiny—and land relations—which post-Mutiny tenancy legislation sought to regulate—would obviously be beyond the scope of this work · here we are concerned with land solely as a source of revenue or land tax. Regarding land revenue the most significant policy issue in our period was the question of extension of Permanent Settlement to areas then under periodically revised temporary settlement. Such a Permanent Settlement would put a stop to the progressive rise in the Government's income from land revenue. Since land revenue contributed over 40 per cent of the total income of the Government of India this question was of crucial importance.

Permanent Settlement in nineteenth century India was not just a phrase of revenue law but a social philosophy. The Permanent Settlement had given birth to a creed of stability

and order—a creed based on the sacrosanct institution of Property, sustained by steady income from land and rentier investments, and articulated through upper-class associations which demanded for the landed and rentier classes that position in the socio-political fabric which was due to 'natural leaders of society' who had 'a stable stake in the land' and were loyal to the 'Raj'. Bengal was the home of this creed but it was also naturalised elsewhere. The resonance between this creed and Whig political ideas and its discordance with Utilitarian modes of thinking gave land revenue policy an ideological dimension in the first half of the nineteenth century. By the middle of the century it appeared that Mill's disciples had completely triumphed over the so-called Bengal School. And yet, in the 'sixties the idea of Permanent Settlement was revived. In 1862 the Secretary of State announced the decision of the Government to sanction a Permanent Settlement of Land Revenue throughout India.[1] For the next two decades, while the pros and cons of the question of extending such a settlement were being weighed, the decision was held in abeyance and it was finally reneged in 1883.[2] The chief interest of the post-Mutiny period is to study the motivations behind the decision to introduce Permanent Settlement and the gradual recession from that decision.

Macaulay in his essay on Warren Hastings makes rather casually an interesting point : in the phraseology of the British Indian officials the word 'Political' was synonymous with 'Diplomatic' ; a civil servant ably carried on the business of internal administration but was "quite ignorant of all political business".[3] In other words, in the official mind the administration of the empire was not conceived in political terms. The district officer or the bureaucrat in Calcutta tended to ignore the social and political implications of administrative decisions and actions. Thus the Permanent Settlement was more often than not regarded purely as a question of convenience in revenue

collection. In the higher decision-making levels, however, there was a greater degree of awareness about the social effects of a tenure and settlement system. To Samuel Laing, the Finance Member of the Governor-General's Council, the Permanent Settlement was the basis of a new social order. "We do not exist as a government merely to get the largest out of the country, or even to keep the mass of the people in a state of uniform dead level, though it should be a tolerably happy and contented one, as a peasant tenantry under a paternal government. If we give a Permanent Settlement . . . we lay the foundation for a state of society, not perhaps so easily managed, but far more varied and richer in elements of civilization and progress".[4] On the introduction of a Permanent Settlement "although there may be more hardships, inequalities and collisions, there will be more life, activity and progress, than there ever could be where the Government was all-in-all. . . . If we have any business at all in the East, it is to try and found something better than the old approved pattern of Oriental Despotisms . . ." There will be, Laing admitted, gradations and inequalities in society, but this was inevitable whether the revenue payer was a zamindar or a statutory tenant with under-would by degrees sell or sublet".[5] That is to say a class of interests of the existing revenue-paying ryots, the establishment of a fixed tenure of land must tend to bring an increasing mass of the population into the condition of ordinary rent paying tenants or hired labourers, as the ryots who are made free holders would by degrees sell or sublet".[5] That is to say a class of intermediaries would grow up. The growth of such a middle class was, in the opinion of Laing and Sir Charles Wood, highly desirable and even Sir John Lawrence, who sympathised more readily with the "yeomen" than with the middle classes, was in agreement with them. In his Revenue Despatch of 9 July 1862, recommending a Permanent Settlement for all India, Wood looks forward to "the gradual growth of a middle class connect-

ed with land." Lawrence also spoke of the desirability of having such a class which would be "almost certain to be well-affected to the Government".[6] But it seems that his conceptions were somewhat different from those of Laing. Lawrence would have a landed middle class "without dispossessing the present yeomen and peasant proprietors", though, as Laing almost certainly knew, expropriation of the latter class was a part of the process of growth of a new middle class. Lawrence might have been a "paternalist" from his Punjab days, but there is nothing paternalistic about Laing or Wood's approach. It has been suggested that the revival of the Permanent Settlement proposal after the Mutiny was connected with a revival of paternalism during John Lawrence's administration.[7] But the approach of most of the protagonists of Permanent Settlement was essentially pragmatic and in their social philosophy there is little evidence of a reversion to paternalism.

To understand the Permanent Settlement question as an ideological issue it is also necessary to take into account the nationalist approach to the question. A Permanent Settlement was integral to the economic programme of the late nineteenth century nationalists. Amongst them Romesh Dutt was the chief apostle of the creed of Permanent Settlement. In 1875 Romesh Dutt was advocating a Permanent Settlement between the zamindar and the raiyat similar to the Permanent Settlement between the zamindar and the Government.[8] The Regulation I of 1793 left the raiyats at the mercy of the zamindar : the subsequent tenancy legislaiton had given the raiyats some legal rights, but the recent disturbances in Nuddea and Pabna showed the intensity and extent of agrarian discontent. Ramesh Dutt urged the Government to take measures "to heal the ill-feeling between the two classes"—the zamindars and raiyats—and, he argued, the first step in that direction, was a Permanent Settlement of the rates of rent paid by the raiyat. Romesh Dutt was warned by his fellow civilians that to criticise the policies

of the Government might injure the author's prospects of promotion in the civil service; "promotion in the service I do not much care for", Dutt wrote to his brother, but "it is fortunate that the other books I intend to write do not concern Indian politics".[9] The mouthpiece of zamindary interests, the *Hindoo Patriot,* condemned in no uncertain terms the "revolutionary spirit" in "young men who lived a few years in England. . . . [and] returned to India with new-fangled ideas and opinions". Kristodas Pal, the author of this diatribe, hoped that "age will sober down the excesses of youth". Dutt's son-in-law and biographer, J. N. Gupta, also ascribed Dutt's failure "to do sufficient justice to the claims of the zamindars" to "youthful enthusiasm and immaturity". It seems that there was pressure on Dutt from various quarters and it is evident from his later writings that Dutt modified his views a great deal.[10] Dutt's writings, especially *The Peasantry of Bengal* (1875) and *Famines in India* (1900), were imbued with a deep sympathy for the raiyat and they fostered an awareness about Indian agrarian problems among the British administrators such as A. P. Mac-Donnell and H. J. Reynolds, Indian nationalists like Dadabhai Naoroji and even people remote from the Indian scene such as Prince Kropotkin.[11] But the "spirit of radicalism" which the *Hindoo Patriot* deplored in 1875 was conspicuously absent in Dutt's later writings. While extolling the merits of the Bengal system of revenue settlement as compared to the temporary ryotwary systems of Bombay and Madras, Dutt glosses over the exploitative element in the zamindary system. This crucial weakness of the position Dutt took in 1900 was exploited to the full by Lord Curzon who pointed out that Dutt's school did not pay sufficient attention to the need for placing a limit on the demands of the zamindars from the raiyats. If it was the interests of the raiyat that were to be protected that protection was not less necessary when his payments were made to a landowner in

the form of rent, than when they were made in the form of land revenue to the British Government. However, Romesh Dutt and his friends in the nationalist camp did not advocate the complete replication of the Bengal pattern of Permanent Settlement all over India. A zamindary system of the type developed in Bengal, it was realised, was not an inseparable part of a Permanent Settlement. What was demanded was a Permanent Settlement of revenue demands on the raiyat. The latter was the statutory tenant and while a Permanent Settlement between him and the Government would protect his interests, the cultivators having subordinate rights in land, or none at all, would not benefit from Permanent Settlement. "The plea that the settlement should be with raiyats," a modern Indian economist remarks, "would be meaningless in a community where raiyats were free to create under-raiyats, leading to a situation where the exploited would become exploiters".[12] This aspect of the problem was ignored by Dutt. The attitude which Romesh Dutt typifies may be explained in terms of the social background of the late nineteenth century elite : in part this attitude was the result of the nationalist leaders' prior commitment to what they thought was a greater cause (viz. struggle against imperialism) than social justice.

What was the theoretical basis of this creed of Parmanent Settlement ? Virtually there was none. There was a vague assumption that the Permanent Settlement, by reducing the state's share in rent, would foster accumulation of agricultural wealth and encourage investment of capital for agricultural development. Not only Dutt and his school, but many of the British officials, as we shall see below, took this for granted. Such an assumption is reminiscent of Turgot and Smith's theory of investment process that if anyone has investible capital then investment would automatically take place leading to expansion of productive capacity. But the impediments to saving and investment—e.g. drain on resources through the

extended or joint family system, the dissaving effects of consumption habits handed down from the "feudal" past or newly acquired through contact with Europeans, the conspicuous consumption and waste by a new class of absentee landlords lacking a tradition of developing the patrimony—all the constraints on agrarian development were very much in evidence in Bengal. The critics of Permanent Settlement could point this out. They could also adduce principles derived from the Utilitarian school of economists. It followed from Mill's theory of rent that the state should appropriate a part of the unearned increment of rent and a Permanent Settlement would put a stop to that. It was argued that only a small part of the economic rent was being taken by the state as revenue and the small but growing mercantile community in India urged the government to exact a larger share. J. S. Mill, the Calcutta Trades Association memorialised the Secretary of State in 1867, had demonstrated that of all types of taxation land revenue was the least harmful; yet the Government, through license taxes on traders and manufacturers, was taxing capital "in productive channels contributing to the wealth and prosperity of the country" while realised property and idle capital went virtually untaxed.[13] The Bengal Chamber of Commerce complained that an "inequitable weight [was] thrown upon national industries" if direct taxes fell on traders and artisans and not on "the possessors of wealth in land and Government securities".[14] As early as 1859 we find the native merchants of Bombay asking the Government not to "tax the industrial classes for the benefit of the idle and the wealthy . . . Life incomes and incomes drawn from business and professions should be less heavily taxed than those arising from property . . . "[15] A number of memorials of this kind reached the Government from Calcutta, Bombay, Ahmedabad and Madras.[16] The implication of these expostulations is clear : the landlord and the rentier's income should be taxed more heavily than the

earned incomes of merchants, traders, and artisans. Mill had suggested differentiation in the taxation of income on the basis of source of income and the deliberations of Hubbard's Committee (1861) of House of Commons had drawn attention to the justice of differentiation between earned and unearned incomes.[17] The differentiation principle was not accepted by the Indian Government but the need for some form of property tax was felt acutely.[18] The Government failed to devise such a tax and the experiments with income tax in the 'sixties showed that taxing increments to agricultural income after the conclusion of a Permanent Settlement was a difficult business.[19] In this context the Utilitarian arguments against Permanent Settlement could not be dismissed as merely theoretical. J. S. Mill does not figure prominently in the revenue controversy of the 'sixties and 'seventies, but he looms large in the background. In his private correspondence with Sir H. S. Maine and W T. Thornton, J. S. Mill warned them against "a reaction [after the Mutiny] towards landlordism of the present English type" and expressed his misgivings that a permanent redemption of land revenue would turn out to be "a bad bargain to the government".[20]

To sum up, the idea of the Permanent Settlement meant different things to different people. To Samuel Laing it meant the basis of a stratified and developing society with an active and progressive middle class. To Romesh Dutt it meant the final delimitation of the foreign government's demand on agricultural incomes, which would lead to growth of agricultural wealth. To the zamindars it meant self-perpetuation. And to Mill and his disciples it meant a bad bargain.

What motivated the Government of India to accept the principle of Permanent Settlement in 1862? We must concede priority to the famine problem which, as Col. Baird Smith pointed out, had a direct bearing on the revenue system Baird Smith was new to his task when he plunged into the famine

question. He was a distinguished engineer but his experience in revenue administration and other things connected with famine was limited. This perhaps was an advantage, for he brought a fresh mind to the problem when he was asked by Lord Canning to enquire into the causes of the famine of 1860 in Northern India. In his three reports submitted in May and August he pointed out that the capacity of the people to resist scarcity and famine was "in direct proportion—I would almost say a geometrical proportion—to the perfection of the settlement system under which they are living and growing".[21] He found that as a result of the limitation for long terms of the Government demand on the land and careful recording of rights, value of agricultural property had risen. Indeed the land system had so far improved between the years of the famine of 1837-38 and 1860 that the people's staying power under famine conditions had improved. Attributing this improvement to the longer term of settlement Baird Smith argued that further application of the same principle, i.e. the extension of Permanent Settlement to areas then under thirty years' settlement, would improve people's condition still further and the risk of the agricultural community collapsing in a famine would be reduced. Very little, however, was known about the real condition of cultivators. The Lieutenant-Governor of the North-Western Provinces questioned Baird Smith's findings and maintained that "man for man the agriculturist of the North-Western Provinces is at least on a par in circumstances with him of Bengal", although the proprietary body was not so prosperous there as in Bengal.[22] By and large, however, it was undeniable that a smaller proportion of total agricultural income was taken by the Government (and a larger proportion left to land owners) under Permanent Settlement than under a periodical settlement system. At the same time to equate a Permanent Settlement with enrichment of the peasantry would be absurd.

This was pointed out by Ross D. Mangles, member of the India Council, in a minute of dissent on Wood's 1862 despatch on Permanent Settlement.[23] He asserted that the Permanent Settlement would benefit only those paying revenue direct to the state, but not the mass of agricultural population who had subordinate rights in land. Thus a Permanent Settlement might well mean "the abandonment of the rights and interests of the state for the behoof of a favoured class". However, this evil could be avoided if, as Baird Smith had recommended, recording of rights accompanied permanent fixation of revenue demand. It appears that Sir C. Wood was deeply impressed with Baird Smith's report and in his Revenue Despatch of July, 1862 he used excerpts from the Report to buttress the case for Permanent Settlement.[24]

Another weighty argument in favour of Permanent Settlement was the political one. The Permanent Settlement, it was argued, would win over the laud-owning class. The Secretary of State, Lord Stanley. wrote in his Revenue Despatch of 31 December 1858 that after a Permanent Settlement the zamindar would identify himself with the Government and "his loyalty [would be] a matter of prudence and self-interest".[25] Sir C. Wood was also aware of the political advantage of a settlement with the proprietors of the soil for good : "absolute creation of property in the soil" would, he hoped, increase loyalty to Government.[26] This was also the opinion of that staunch champion of Permanent Settlement, Sir John Lawrence.[27] "It is on the contentment of the agriculturists", he wrote, "who form the real physical power in the country that the security of British rule, to a large extent, depends. If they are prosperous the military force may be small, but not otherwise". Such an argument, from an authority like Lawrence, and immediately after the Mutiny at that, was bound to be considered weighty. It is probable, however, that the political advantage of the Permanent Settlement was very much exagge-

rated. As an officer with practical administrative experience pointed out, the Indian cultivators' reaction to the offer of redemption of Permanent Settlement might be different from that expected. "At the time of making the Permanent Settlement, a rate of assessment would be fixed quite as high as the land could then bear, and higher than the last two generations have been in the habit of paying;" the increased assessment would be a heavy burden on the peasants, who would hardly appreciate the long-term benefits, for he "cannot look so far forward as to realise to himself the probability of a general rise in the value of land".[28] The immunity of Bengal from the Mutiny of 1857 had created, as W. Muir of the Board of Revenue of the North-West Provinces pointed out, a misleading impression, and had led people to exaggerate the political benefits of permanent settlement. Actually the factors which incited people to revolt (Muir refrains from mentioning what they were) "were brought to bear in their full strength in hardly any part of Bengal; but where they were brought to bear, as in the case of Shahabad, the Permanent Settlement was as powerless to hold them in check as the temporary settlement".[29] One instance of the fallacious identification of Permanent Settlement with political security is the statement of Samuel Laing that the Permanent Settlement "kept the largest section of the Empire [meaning Bengal or the Lower Provinces] attached to us throughout the Mutiny . . ."[30] At any rate, rightly or wrongly, it was believed that the concession of Permanent Settlement of land revenue would increase people's loyalty to government and create a class that would identify its own interests with those of an alien Government.

Another point in favour of the Permanent Settlement was the prospect of reducing administrative work and expenditure at the lower levels of administration. It was universally admitted that the periodical settlement was an onerous task for the European officers who were supposed to supervise the work

and it was an opportunity for the lower officials to fleece the revenue payers. It caused immense annoyance to the assessees and the cost of each settlement operation was considerable.[31] These administrative considerations actually appeared to the practical administrators much more important than the arguments based on the alleged political benefits of Permanent Settlement or the supposed connection between Permanent Settlement and the ability of the peasants to resist famine.

The expansion of the market for Indian raw materials during the Crimean War and the American Civil War, the Indian Cotton Boom in 1861-64 during the Lancashire cotton famine, the expansion of some extractive and plantation industries, the stimulus to trade and commerce due to the development of the railways and inland navigation system, the increased volume of British capital investment in India etc. marked the beginning of a new phase in India's economic life in the 'sixties. India was no longer an orchard of "pagoda trees for England's younger sons to shake".[32] India was to be 'developed' as a field of investment and trade. Plans ranging from unpractical ones such as that of making the waste lands of India productive by the labour of immigrants from Britain[33] to advanced schemes for the development of petroleum resources[34] —almost anything offering scope for investment excited public interest in England and, sometimes, received the government's support. The eagerness to explore the possibilities of investment and trade in India was partly due to the contraction of Britain's market in Europe as a result of protective tariffs, and partly due to the establishment of fuller control over India after 1857 and the possibility of influencing the government through parliamentary pressure groups and mercantile bodies. The temporary settlement and periodical increase of revenue demand was one of the disincentives to the investment of British capital in India. The 'Home' authorities were anxious to remove all impediments of this sort in India. The Permanent

Settlement, the grant of free hold tenure and the redemption of land revenue, it was believed, would encourage the flow of British capital and enterprise into India.

In order to attract British capital to India the Court of Directors urged the Government of India in 1857 experimentally to sanction "the alienation in perpetuity to any person of substance and respectability, of land belonging to the Government, upon condition of the application of a certain amount of capital to the cultivation of the most valuable products of the soil".[35] Many applications were received by the Court and the Secretary of State for grants of unoccupied land "for the purpose of carrying on the cultivation of cotton and of other exportable products for the supply of manufacturers" in England.[36] Manchester's dependence for raw material supply on the United States was causing concern to the millowners and their Cotton Supply Association put pressure on the British Government to help develop alternative sources of supply within the Empire. The Association sent a deputation to Secretary of State Lord Stanley in February 1859, another to Samuel Laing in October 1861 and two memorials to Sir Charles Wood in July 1869 and April 1860.[37] Through its publicity organ, the *Cotton Supply Reporter*, the Association, with the support of the so-called 'cotton M.P.s', carried on strident propaganda : although that journal carried a banner at the top 'Cotton Knows No Politics' there was plenty of politicking. With the outbreak of the American Civil War the supply from the southern states was cut off and the Cotton Supply Association stepped up its efforts. Not content with deputations and memorials to the India Office, the Association started communicating direct with India. The members of the Association drew attention to the "grievous wrong done to their fellow Indian subjects by perpetuating the present antiquated, vexatious, complex and oppressive system of land tenure".[38] In order to encourage the production of raw cotton the Indian Government should allow redemption of

land revenue and free hold tenure. The land regulations should be altered, the C.S.A. demanded, to give "free scope for investment of European capital".[39] British mercantile associations in India joined hands with the Manchester group. The Indigo Planters' Association, tea planters, coffee planters and the joint body of Landholders and Commercial Association memorialised the Indian Government on this issue. "The capital, enterprise and energy that would be brought to bear upon the productive resources of India from the mother country", wrote the Landholders and Commercial Association, "are effectually kept back, because of the land tenure being insecure and subject to resumption".[40]

These exertions bore some fruit in 1861. Early that year the Indian Government declared that in view of "the possibility of a greatly and suddenly increased demand for Indian cotton in England" measures would be taken to alter land regulations; in October 1861 regulations were framed to allow redemption of land revenue and grant of lands of fee simple.[41] In arriving at this decision the Government was influenced not only by the pressure of the Manchester cotton interests and the home authorities, but also by its own officers, P. Saunders, the Commissioner appointed to report on cultivation of cotton, and Rivers Thompson of the Bengal Board of Revenue. The latter was of opinion that European capital would not risk itself in India unless tenures in fee simple, such as were available in other countries under the Crown, were offered in India.[41a] P. Saunders recommended not only redemption of land revenue but a Permanent Settlement. "Nothing can be more disheartening to a people "than to know that taxation is perpetually treading . . . on the heels of improvement, that all their labours and improvements lead only to a further tightening of the elastic bands with which they are bound".[42]

The Lieutenant Governor of the North-Western Provinces was of opinion that Saunders exaggerated the development

inhibiting effect of temporary settlements, but agreed that the government must do all in its power to encourage the settlement of Europeans, even in the interior of the country (outside the metropolitan centres), whether they came "in the character of landholders, of planters or of merchants".[43] The people in general would "benefit, more or less, by the large circulation of money which will always follow upon the employment of European capital in their neighbourhood".[44] In the famous Revenue Despatch of July 1862 recommending Permanent Settlement, Sir C. Wood declared (para 24) that it was the intention of the government to encourage settlement of Europeans in India.[45] In England in those days Wakefield's writings had stimulated a good deal of interest in migration and large-scale settlement abroad.[46] For various reasons, quite obvious ones—the climate, the non-availability of usable unoccupied land, the pressure of population etc.—India was not ideally suited to European settlement. Elphinstone, the Governor of Bombay, was clearly right when he wrote in a minute on the contemplated regulations regarding grant of waste land in fee simple: "The settlement of Europeans in this country in such numbers as to be worthy of being termed the colonisation of India has always appeared to me a chimera".[47] The regulations for grant of waste lands in free simple and for the redemption of land revenue were demanded by the mercantile interests and conceded by the government in the expectation of large-scale investment of European capital in land, importation of foreign experties and methods, and settlement in India of European entrepreneurs. The actual working of the regulations did not fulfill these expectations. Few Europeans—except for those in the plantation industries—took advantage of the waste land regulations, and Indian landowners who cared to redeem the land revenue were fewer still.

That a temporary settlement subject to revision discouraged capital investment in land—whether the capital was European

or native owned—was generally admitted and it was the strongest argument for Permanent Settlement. It was generally noticed, wherever there were annual or other periodical assessments, that improvement of and investment in land was inhibited by the almost certain prospect of increased assessment at the next settlement. People were naturally reluctant to invest in land in areas of periodical settlement where taxation would catch up with improvement of land values.[48] It was self-evident that fixing of revenue demand would be, in the words of Cecil Beadon, "the most powerful inducement that human nature knows to increase the value of his property".[49] It could be, of course, argued that a good deal of development had taken place even under periodical settlements. This had happened in the North-Western Provinces, for instance, as the Lieutenant Governor of those provinces pointed out : "these provinces are a garden compared to what they were in 1809".[50] It was true that in North-Western Provinces under Rule 37 of Settlement Rules (1854) some allowance was made for expenditure of capital to ensure moderation in *jumma*. Nevertheless, capital was reluctantly invested in areas of short period settlements [51] It was noticed that towards the close of a settlement period, as the time for a new assessment drew near, agricultural improvement received a check. For it was the object of every land owner to be as lightly assessed as possible and agricultural improvements would increase the value and extent of cultivated area with reference to which assessment would be fixed in the coming settlement.[52] This was also admitted by the Madras revenue authorities.[53] In Bengal on the other hand the Permanent Settlement was believed to have "created a mass of wealth" [54] Such, at any rate, was the belief of the Finance Member Samuel Laing, although it was uncertain whether or how far accumulation of wealth had led to land improvement. However, the idea gained currency that permanent settlement of land revenue aided capital accumulation and investment and

this was used as an argument for permanent settlement. It was so used by Sir C. Wood in his July Despatch of 1862 recommending a permanent settlement for all India.[55]

Up to the middle of the 'sixties the champions of Permanent Settlement had the upper hand : even then there were not a few who were skeptical. From the middle of the 'sixties' although the 'principle' of Permanent Settlement had been officially accepted, the authorities started having second thoughts. "I do not recede from the principle of a permanent settlement", wrote Wood to Lawrence in a private letter in 1864. But "do not precipitate a permanent settlement when there is a very reasonable prospect of an increase of assessment . . ."[56] And again, in 1865, Wood was of opinion that "an increase in the land revenue if possible is unobjectionable".[57] Cranborne, Wood's successor, asked Lawrence "to move warily in the matter of permanent settlement . . in view of the fact that money is falling in value—and that in India every element of wealth is in a state of rapid growth—I find it very hard to look without alarm at the effects of a permanent settlement".[58] Lawrence was enthusiastically in favour of Permanent Settlement.[59] But his successor Mayo belonged to the opposite camp. He advised Argyll not to decide on Permanent Settlement in the North-western Provinces in a hurry, for "almost every man who was in favour of a permanent settlement when Sir C. Wood wrote in 1862 has changed his mind".[60] "It is a question of little importance now. It may be a question of life and death to our rule 25 or 30 years hence".[61] The resistance of the Bengal zamindars to local cesses, Road Tax, Education Cess and the like, strengthened Mayo's conviction that a permanent settlement would close the door to additional taxation for "improvement". "The zamindars will of course object to anything that touches their pockets and no matter what is proposed they will use [raise ?] the cuckoo cry of 'breach of contract' . . . They don't care a farthing how much

the poor man is made to pay for his salt or his tobacco but they Scream if their large incomes are touched to the amount one half per cent".[62] Argyll conceded that "a Permanent Settlement is a great stimulus to private enterprise and to the investment of capital with confidence on the part of the agricultural classes that they will enjoy the fruits of their skill and enterprise". But settlement of revenue must not preclude taxation. "I hope you will take care", he wrote to Mayo, "that in granting these settlements a clear understanding (or rather *intimation*) is maintained that the Imperial tax or land revenue is not in any way to preclude further taxation for local purposes. You know the great objections entertained by many people of high authority to any permanent alienation by the state of its right to adjust the tax or rent in exacts, according to the increasing value of land. My own opinion is that Permanent Settlements are good—*but only* on the condition that the increased wealth which is thus left in the hands of individuals shall be made accessible to taxation in other forms —and the great strength of the argument against such settlements has always turned on the assumed impossibility, or the great difficulty of devising any new sources of Revenue in India".[63]

Thus, through their private correspondence, the authorities were revising the original decision, although the lack of confidence in the decision of 1862 to introduce Permanent Settlement was seldom officially expressed. Instead, the desire to recede from the policy decision of 1862 found public expression in a series of notifications and regulations laying down various preconditions for permanent settlement. Actually Sir C. Wood had already laid down certain conditions, of which the most important was that Permanent Settlement would be granted only in those areas where in an estate three-fourths of cultivable land was already under cultivation.[64] This condition had been suggested by Cecil Beadon to avoid the mistake in the 1793

Settlement of Bengal of relinquishing prospective increase in revenue on *all* lands.[65] This condition meant that many parts of the Punjab, the Central Provinces and some parts of Bombay and the North-Western Provinces were not yet fit for permanent settlement. In 1865 the Secretary of State formulated this condition as follows : Permanent Settlement would effect "an immediate settlement in perpetuity, after revision, for all estates in which the actual cultivation amounts to 80 per cent of the cultivable or malgoozaree area".[66] The other areas were to await future development of their resources and were to be temporarily settled.

Another condition was introduced in 1866. The lands which benefited from government irrigation canals, or were likely to benefit in future, ought to be, it was laid down, subject to enhanced taxation. The Secretary of State ruled that "no Permanent Settlement should be concluded for any estate the assets of which would, when canal irrigation shall have been carried to the full extent at present contemplated, exceed. . . . the existing assets in a proportion exceeding 20 per cent". Such estates, like estates not fully cultivated or developed, would be settled temporarily.[67] This was a very vaguely formulated condition and it was likely to exclude many estates which might be brought under irrigation in the remote future.[68] At the request of the Government of India Northcote redefined the rule as follows : "No Permanent Settlement shall be concluded for any estate to which canal irrigation is, in the opinion of the Governor General in Council, likely to be extended *within the next twenty years*, and the existing assets of which would be increased to the extent of 20 per cent".[69]

Even these conditions, the Government of India contended, were insufficient to safeguard the interests of the Government. Virtually it was said that so long as an estate continued to develop and improve in value no permanent settlement would be concluded. The Government of India in a Revenue Despatch

of May 1871[70] expressed the opinion that the decision to introduce permanent settlement in the North Western Provinces must be held in abeyance; this practically shelved the whole question and it only needed the finishing stroke of Revenue Despatch no. 24 of 1883 to dispose of the permanent settlement plan.[71] As a matter of fact the 1883 decision was anticipated in a Despatch from Secretary of State in 1871. This despatch communicated the opinion of the Select Committee of House of Commons on Indian Finance: "they think it right that the attention of the Secretary of State for India in Council should be called . . . in order that he may reconsider the subject, and in the meantime determine whether steps should be taken to suspend any further proceedings to carry out the despatch of his predecessor".[72]

It appears that Sir C. Wood had under-estimated two problems in the way of introducing Permanent Settlement. He under-estimated the rise in land values and the possibility of depreciation of silver. "The apprehension of a possible fall in the relative value of money . . . does not seem to Her Majesty's Government to be of sufficient moment . . ."[73] And again, "when once the rent has been properly fixed, any increase consequent on the natural progress of society will in all probability take place but slowly, and reach no great amount until after a considerable interval . . ."[74] In both respects Wood was wrong, and as this became more and more evident the enthusiasm for Permanent Settlement declined. The land values increased rapidly and the Government decided not to grant permanent settlement so long as an estate was not fully cultivated and developed. This meant that those parts which were not developed would be denied permanent settlement, yet it was precisely for the investment in and development of land that the Permanent Settlement was intended. This was an ironical situation.

Another problem which could not be foreseen in the early

'sixties was that of framing a taxation system to get back what the government would relinquish in revenue on the conclusion of a permanent settlement. The failure of Income Taxes and the failure of indirect taxes to bring in as much as was expected, brought home to the government the importance of land revenue as a major and rising source of income. The advantages of Permanent Settlement were recognized at a time when it was believed that a system could easily be devised to tax the agricultural wealth which such a settlement would create. "That system of taxation", wrote Cranborne, "appears still to be a philosopher's stone to Indian financiers, and therefore it is natural that many who were formerly enthusiastic for the permanent settlement should now be beginning to feel reluctant to part with the possible increase in the land revenue".[75] Baffled in the quest for the philosopher's stone the Government decided finally to abandon the idea of Permanent Settlement for all India.

II

Throughout the first half of the nineteenth century the opium revenue of the Government of India steadily increased, despite frequent market fluctuations. From a mere third of a million sterling at the beginning of the century, opium revenue had increased to nearly a million in 1810; it was over a million and a half in 1830 and more than three millions and a half in 1850.[75a] The receipts under this head grossed over Rs. 5 crores in 1856-57. In the year 1857-58, the year of the Mutiny and a year of severe financial stringency, opium revenue, amounting to Rs. 6 8 crore, far exceeded expectations and helped the government tide over the financial crisis. Opium revenue, despite fluctuations from year to year, went up steadily from the annual average of Rs. 7 crores in the

period 1858-61 to an annual average of 7.5 crores in the quinquennium 1862-66 and 8.5 crores in 1867-71.

Poppy was grown in India mainly in two regions : a belt spreading across Agra, Oudh and Behar in Bengal Presidency. and another centre outside British India (covering several native states in Central India, Rajputana and Gaikwar's territory) producing the opium known by the generic name of Malwa opium. The systems of production and revenue collection were different in these two regions.

In Bengal the government had monopolised opium and poppy could be cultivated and processed into opium only for the Government. Opium Agents stationed in Patna and Ghazeepore managed the opium business on behalf of the Revenue Board of Bengal.[76] Large advances were made to cultivators of poppy, who undertook the cultivation voluntarily; the advance was looked upon as part payment for the opium to be produced next season. Crude opium was processed in government factories and sent to Calcutta. The Opium Department supplied opium for local consumption to the Abkaree (Excise) Department.[77] The bulk of opium produced in Bengal was sold by auction, at monthly sales in Calcutta, to the highest bidders. The difference between the cost price of opium and the auction price was the profit or revenue accruing to the government.[78] This system, as a committee appointed in 1871 to report on the administration of the Opium Department commanted, had "probably rather grown, than deliberately devised"[79]. It was far from satisfactory. One obvious difficulty inseparable from the system was the problem of managing supply. The supply was determined by the price offered by the government to the cultivators. The fixation of price by government was fraught with many problems : the authorities tended "to treat poppy as though it were not subject to the natural law of demand and supply".[80] The price of opium was raised from Rs. 3-4 annas to Rs. 3-8 annas per

seer in the financial year 1859-60; it was further increased in 1860-61 to Rs. 4; and 1861-62 price was again raised to Rs. 5 per seer.[81] The Government was much concerned at the failure of the prices offered up to 1861 to induce increased cultivation of poppy.[82] In five years from 1853-54 to 1858-59 the decrease of opium cultivation in Behar Agency was 108,627 beegahs, and in Benaras Agency, 28,056 beegahs.[83] Notwithstanding raising of prices cultivation continued to decline in Bengal.[84] The increase in agricultural prices, the exhaustion of opium producing land from being over-worked, the spread of other commercial crops competing with poppy in Bengal account for the fall in production. The enhancement of price to Rs. 5 per seer in June 1861 revived poppy cultivation somewhat. Within a few years it was found that increased rate of payment to ryots had caused extension of cultivation to areas producing inferior quality opium at a higher cost; it was therefore decided to reduce the price to Rs. 4-8 annas per seer in 1865 and to restrict cultivation in the Benaras Agency.[85]

The problems stemming from the monopoly system and price fixation by government were fomidable. The laissez faire solution to these problems was the abandonment of the government monopoly system. In 1858 Sir Robert Hamilton, the Opium Agent of Malwa proposed to substitute the monopoly system of Bengal with a new system which would allow free and unrestricted cultivation of poppy and the manufacture and export of opium on payment of a fixed duty; the new system, it was suggested, should be gradually introduced by shrinking government advance and permitting licensees to grow opium.[86] The Government of North-Western Provinces lent their support to the plan. The arguments put forward to justify this plan were as follows. (a) It would remove the opprobium attaching to the government of being directly involved in opium traffic as a monopolist. (b) There would

be no financial loss on the abolition of the monopoly, for excise and export duties on opium would sustain revenue. (c) The expenses of maintaining establishments for the Opium Department or Opium Agencies could be profitably dispensed with. (d) The harassing interference with agricultural operations would also cease on the introduction of free cultivation.

The Bengal Government vigorously opposed the proposed changes. The Lt. Governor of Bengal contended that "the distinction, *as a question of ethics*, between raising the revenue from opium by an excise on consumption and a duty on exportation, and raising the same revenue by monopolising the manufacture, is fanciful and false...."[87] In Bengal there would be an enormous amount of loss under a system of free cultivation due to evasion of duty. The geographical factors should not be lost sight of; the Pass Duty on Malwa opium was regularly collected because the few routes across Western Ghats to Bombay could be easily watched, but in Bengal it would be impossible to prevent smuggling of opium to the sea coast down every water channel. The Bengal Government denied the allegation made by Hamilton that pressure was put on cultivators to grow poppy. The engagements with government Agency were voluntary and terminable at the option of the cultivator, advances were made without interest, scope for corruption was limited due to personal supervision by European officers, and liberal allowances were made for loss of crops in bad seasons. That the opium *assamees* were satisfied with the existing arrangements, the Bengal Government claimed, was proved during the Mutiny when opium cultivators even in disturbed districts brought in their opium, paid for in advance, to settle their accounts with government agents.[88] It was also pointed out that free cultivation of poppy might lead to spread of opium eating and smoking inside India, particularly so because poppy can be grown almost anywhere in Bengal.[89] Moreover it might lead to over production which would affect

the Chinese market, bring down prices and precipitate a crisis.[90] The decisive argument in favour of the monopoly system was that it was more profitable to government than the Pass Duty which applied to Malwa opium. It was obvious that Malwa opium export enriched the western and central India opium merchants and the native princes (particularly the Maharajah of Holkar).[91] Sir Cecil Beadon calculated in 1871 that the government would lose Rs. 200 to Rs. 250 on each chest of opium if monopoly was converted to excise system.[92] Opium trade was of an exceptional character and it required control. It "must be viewed through a clearer medium than the general principles of free trade".[93] Poppy cultivation was impossible without advances and it was doubtful if speculators and capitalists would invest in such risky business.[94] Even if capital was available it was certain that the cultivators would be exploited by the mahajans; the "*assamees* would throw up cultivation en masse" if the traditional arrangement with the government was disturbed.[95] It was unlikely that the zamindars would enter the opium business; "the field vacated by the government would be occupied almost exclusively by Europeans".[96] The Europeans who managed the Indigo Factories would probably establish and manage opium Factories with ease. "The Natives do not I think possess", wrote a local opium agent in Bihar, "the genius requisite to secure success in an enterprise of this kind".[97] The Europeans in India with capital ready to be invested and expertise acquired in the management of indigo factories were not unaware that opium was a field of lucrative opportunities. This appears to have been an important factor in the agitation against government monopoly in opium and for the introduction of free manufacture. In 1871-72 at the time of enquiry by the Select Committee of the House of Commons on Indian Finance the question was raised. Sir R. Hamilton and several others spoke in favour of abolition of government monopoly.[98] But the

champions of the Bengal System[99] successfully resisted efforts to introduce free cultivation.

Malwa opium was subject to export duties. Opium produced in Central India—mostly native states—was brought to Indore and weighed at the office of the Opium Agent of Central India. He levied a fixed duty on each chest of opium and gave a pass to cover duty paid opium to Bombay port. The British Government was not concerned with cultivation, manufacture and transport—it only levied a pass duty.[100] This duty was only Rs. 200 per chest till 1845; that year it was raised to Rs. 300 and in 1847-48 to Rs. 400. In 1859 the Government of India raised the duty to Rs. 500 but when in 1860 the duty was again raised to Rs. 600 there was considerable resistance.[101] The Government of Bombay pointed out that Malwa opium unlike Bengal Opium—had to furnish profits to at least four parties : the cultivator, the first purchaser who advanced money to cultivators, the second purchaser who processed the opium and sent it to Bombay, and the exporter of opium chests. A duty of Rs. 600 the Bombay Government contended, would not leave a sufficient margin of profit. The Opium Agent of Indore was also of this opinion. But the Government of India overruled these objections, believing that "immense profits" were being made by the middlemen and exporters.[102] The Government was getting only Rs. 500 (pass duty) on each chest of opium in Bombay, while in Bengal under monopoly system net gain on each chest was Rs. 1200.[103] The warning of the Bombay Government and the memorials of opium merchants of Bombay against the high duties did not have any effect.[104] In April 1861 Government of India notified further increase of duty to Rs. 700.[105] This coincided with a commercial crisis. The prices fell from Rs. 1850 per cent chest (April) to Rs. 1350 (July) in three months. Six opium merchants became bankrupt, twenty brokers engaged in time bargains absconded and many

speculators were ruined.[106] Under the circumstances, Col. R. Shakespear the Opium Agent in Malwa pleaded, a duty of Rs. 700 would be a serious blow to the trade. David Sasson & Co., Rustomjee Jamsetjee Jeejeebhoy & Co., and other firms in the opium business memorialised the government to reduce the duty.[107] The Government of India decided to cancel its earlier notification; it was decided not to raise the duty to Rs. 700.[108]

The revenue from both Malwa and Bengal opium was subject to severe fluctuations. A glance at the statistics in the Appendix would show that the amplitude and frequency of fluctuation caused financial crises at least three times in the decade 1861-71. A sudden fall in the revenue was liable to upset the calculations and anticipations of the Finance Member aiming to predict accurately the year's receipts and to "balance" the budget.

On account of its tendency to fluctuate from year to year opium revenue was generally regarded as a precarious source of revenue. The receipts depended on some factors which were beyond the control of the Government and were wont to vary, upon the "accident of the crops and the chances of markets".[109] In Bengal, apart from these two factors, a third element determining the net profit of the government was the amount of Opium Charge (i.e. the annual charges for advances to poppy cultivators, rate of price fixed by the government, the cost of running the Bengal Opium Agencies etc.); the difference between the cost price of opium and the price obtained at the auctions in Calcutta was the net profit from Bengal Opium.[110] So far as Malwa Opium was concerned the state of the crop, the demand in China and the condition of the Bombay money market were important factors. The price of Malwa Opium tended to "sympathize" with that of Bengal Opium[111] In the 'sixties the substitution of opium with cotton (which was in great demand in Lanchashire,

suffering from short supply due to the American Civil War) affected opium production.[112] Fluctuation in Malwa Opium trade was also caused by the bad state of communication. During the monsoon months when communication with the interior of Malwa for weeks together was impracticable for carts, the transport of opium was affected.[113] At such times opium export and consequently the income from Pass Duties fell off. Opium merchants who could not afford to keep opium in warehouses in Bombay City for ready shipment to China and merchants who brought opium anticipating Chinese demand often incurred heavy losses, due to the slowness of communication of market intelligence and transport of goods.[114] Malwa Opium trade as well as the trade in Bengal Opium was unsteady because there was little idea about the opium market outside India; opium was, said W. N. Massey, "a source which is very obscure. It depends upon a market of which we have very little information. It is subject to the most violent fluctuations...."[115] Finally a good deal of the so-called precariousness of the opium revenue could be attributed to the mismanagement of Bengal Opium. Up to 1867-68 there was "constant and violent speculation in the export trade caused almost entirely by the absence of any settled policy on the part of the Government as to the quantity offered for sale year by year, and fluctuations in the opium revenue were, as necessary consequence, very great also."[116]

For all these reasons opium was looked upon as a treacherous source of revenue and it became the custom to err on the side of caution and underestimate opium revenue while framing the budget. The Home authorities encouraged the practice of moderately estimating opium receipts. In India, however, this policy was unpopular for a deliberate underestimation of opium revenue was often a pretext for screwing up direct taxes. The government wrestled with the problem for a long time and eventually two schemes emerged.

One came from the Finance Member Sir Richard Temple : the plan of an opium (reserve) fund. Another scheme, suggested by Sir Cecil Beadon, Lieutenant Governor of Bengal, envisaged a reserve stock of opium together with a plan of fixation of the quantity of opium offered for sale every year.

In 1868 R. Temple, with the support of Lord Lawrence, proposed a novel system to obviate the fluctuations in opium revenue from year to year. The plan was originally suggested by Lord Stanley. Northcote in one of his private letters to Lawrence outlined Stanley's suggested plan "that you should carry, a fixed amount to the credit of the revenue every year, carrying the balance in good years to an insurance fund, and drawing upon that fund in bad years."[117] In some years opium revenue exceeded expectations and this surplus, Temple proposed, should be kept separate as a Reserve Opium Fund, always kept in hand to supplement Cash Balances or to invest in Government Securities or to be used temporarily in reproductive Public Works as the need arose. If short-fall in opium revenue occured the Reserve Fund would be used to make up the deficit.[118] But the plan was rejected by the majority of members of the Governor General's Council.[119] Maine and Strachey could not support the scheme, Durand could not see its utility and Mansfield hoped it would be "consigned to its proper limbo of oblivion".[120] The scheme was, therefore, abandoned.

A better plan for protecting Indian finances against violent fluctuations of opium revenue had already been suggested. The root cause of those fluctuations, Sir Cecil Beadon, the Lieutenant Governor of Bengal, asserted in a Minute dated 18th April, 1867, was fluctuation in the quantity of Bengal Opium offered for sale by the Government.[121] This was also the opinion of John Strachey who was convinced of the necessity of accumulating a reserve stock of opium.[122] If there was

excess of production it would be set aside as a reserve against failure in future seasons. Every year a fixed quantity, declared in advance by the Government, would be sold; this was known as the "standard" opium supply.[123] If production exceeded this "standard" the excess would not go to the market, but to a reserve stock. This plan was adopted, although an adequate reserve stock of opium could not be collected in the early stage due to crop failures. English mercantile interests were not averse to the plan. Messrs. Jardine, Skinner and Co. and others wrote to the Financial Secretary of the Government of India : "Precautions should be taken to steady the course of a trade so liable to fluctuate in value. Uniformity in the quantity of each annual provision is, we venture to state, the first point to be observed...."[124] The merchant companies pressed the Government of India to declare in advance the quantity the government intended to offer for sale in the following year. As a rule the standard aimed at was 48,000 chests, but there were variations in the early stage. Not until 1879 was it possible definitely to announce the fixed quantity to be sold every month, a quantity which the government was pledged not to alter without notice.[125] The experience of the year 1871-72 showed the merits of the plan. Although a quarter of the expected crop out-turn was destroyed the government was able to draw from stock accumulated the previous year and thus "gained the full advantage from enhanced price on a full supply".[126]

Not only was the fluctuation of receipts from opium a problem : there was a much greater reason for concern, for that source of revenue was threatened with extinction. The threat came from the cheaper varieties of opium produced in China and the Persian Gulf area. Opium from poppy raised in Yezd and Ispahan in Persia found its way via Bushire and Bunder Abbas to Muskat. From there Arab and Indian *Nakhodas* exported opium to Singapore and China ; sometimes smugglers took

it to India via the Makran ports or Karachi.[127] Some inferior opium was also grown in Kerman, around Shiraz, plains of Gurmeseer about Kazeroon and adjoining districts. The total quantity of Persian opium was small, about 10,000 *Shah muns* (1 *Shah mun*=14 lbs.) ; the average price was less than that of Indian opium and it covered the cost of transport to the far eastern market.[128] The amount of Persian production was too small to affect the entire opium market. In 1868 a curious suggestion was put forward that the Government of India should make the Gulf trade a source of revenue by buying up the entire annual Persian and Turkish opium output and selling it at a suitable price.[129] This was not considered expedient. Although West Asian opium production and export remained insignificant, the Indian authorities felt concerned at the prospect of increased cultivation in the future.[130] According to a report of Lewis Pelly, Political Resident in Persian Gulf, Persian production was only 2,500 chests in the beginning of the seventies. Persian and Turkish opium was sent to China, Singapore and London.[131]

The varieties of Chinese opium which competed with the Indian product were known as Nantu (opium of Yunnan province), Chengtu (of Szechuen), and Kweichowtu (of Kweichow). Yunnan in South-West China produced opium as early as 1736, and by 1840 its cultivation had spread to the neighbouring provinces of Szechuen and Kweichow.[132] Inspite of the efforts of the Chinese government to discourage opium cultivation it was spreading fast. In 1859-60 opium of Yunnan, Szechuen and Kansu was enough to satisfy local consumption and a little was sent to other provinces. Hankow, the port nearest to the opium producing provinces, imported only native opium in 1859-60, to the exclusion of foreign opium ; but this was a peak from which native production fell and foreign opium came back in the next few years. The British Consul at Canton reported in 1861 that Chinese opium,

although inferior in quality, was popular among the lower classes for its cheapness, and "the rising generation of opium smokers" preferred the native product; Chinese opium also used to adulterate the expensive Indian opium.[133] The British diplomatic representatives were receiving alarming reports of spread of opium cultivation in the interior of China.[134] A traveller sailing in 1861 up the river Yangtzekiang found the whole of western China practically self-sufficient as regards opium. The eastern and coastal provinces were still completely dependent on foreign opium.[135] Indeed Chinese production had reached a point where export to British Burma commenced, much to the alarm of the Indian authorities. Yunnan opium was brought to Mandalay by caravans and merchants were trying to export Chinese opium through the Burmese port of Rangoon to the Straits Settlements (hitherto almost exclusively supplied with Benaras opium).[136] Such was the situation reported by A. P. Phayre in 1863.

From 1864 opium production in China increased very rapidly. From the reports of British opium merchants[137] in China it appears that in the five years between 1864 and 1869 opium production not only increased in Yunan, Szechuen and Kweichow in the west, but had also extended to Kwangtung, Honan, Hoope, Kiangsin and Chekiang in the east and even to Manchuria and Mongolia. The delegates deputed by the Shanghai Chamber of Commerce and Sir R. Alcock reported in 1869 that about two-thirds of cultivable land in Szechuen and one-third of land in Yunnan was under opium cultivation.[138] The imperial edicts against opium cultivation were ineffective; the local governors were not averse to having opium as a source of revenue. It is possible that the Chinese local authorities were trying to exclude foreign opium by permitting indigenous growth.[139] Sir R. Alcock and Sir F. J. Halliday suspected that the Chinese authorities had relaxed the policy of discouraging opium cultivation in order to destroy Indian trade.[140]

Alcock wrote to Mayo that it was the intention of the Chinese government to encourage opium growing with the object of underselling Indian products, to drive Indian opium out of the market and then, at some later period, to stop opium cultivation in China. Mayo's comment was that "a Policy more rediculously absurd is difficult to conceive and it is quite worthy of the Chinese mind".[141] In any case, whatever were the motives behind the reversal of policy and the encouragement of opium growing in China, Indian prospects seemed to be gloomy. Leading opium merchants in Calcutta apprehended a falling market.[142] There were signs of panic in Calcutta mercantile circles though opium sales had not fallen markedly.[143] "There is no doubt", Mayo told Argyll, "that the state of things as regards Chinese opium is wholly new and the old Indian proverb that opium alarms are of periodical occurance does not apply".[144] Indeed Government of India seemed to be "going to have a rough time of it in Indian Finance, [because] opium never looked so bad".[145]

The chief reason why Chinese opium became so popular was that it was very cheap. In the interior, near the centres of opium production, foreign opium was much more costly as it paid various transit duties on its way from the ports into the interior. "At the treaty ports the price of native [opium] is about two-thirds that of foreign and at these prices they compete on fair terms. At Hankow, where the differences in price is more than one-third in favour of the native, native has the advantage. In the interior....the foreign costs more (having various transit duties to pay), and the native has the advantage".[146] But the cheap Chinese opium was much inferior in quality to the Benares and Bengal opium. Analysis of samples of Chinese opium showed in 1871 that in respect of morphia content, taste and aroma Bengal and Benares opium was superior. However, Chinese opium lasted longer in the pipe giving a longer smoke and the ash could be smoked a

second time; hence the poorer classes preferred it to the Indian import.[147] There were reasons to believe that those who could afford to buy the expensive Indian opium would continue to be its consumers.[148] Moreover, Chinese production, large as it was, lagged far behind demand which was continually increasing.[149] Indeed the increased consumption of native opium, the British Consul at Hong Kong conjectured, might have a favourable effect on Indian trade, because the cheapness of the Chinese drug "increases the number of smokers, and they having acquired a taste for the drug, betake themselves ultimately, to the best kind they can procure, which is of course the Indian opium".[150] As regards the Chinese official attitude the Consul wrote in 1871: "proclamations are, of course, continually being issued by the local magistrates, exhorting people to cultivate cereals, and abandon opium for more useful crops, but as the officials are the chief consumers of the drug and in addition derive a considerable revenue therefrom, these proclamations are intended merely as a means of exacting more money from the cultivators".[151]

Sir Rutherford Alcock suggested a somewhat ingenious plan. He thought the Chinese Government would be willing to restrict opium growing in China if the Indian Government was prepared to enter into an agreement restricting importation into China. Alcock put forward this suggestion in 1870.[152] That year he came to India personally to report on the Chinese opium situation. Mayo was of opinion that such an arrangement might be considered, but he doubted whether the Chinese were really willing to enter into such an agreement.[153] Argyll agreed with Mayo: "He [R. Alcock] urges us to intimate to the Chinese Government that we are at least willing to consider the policy of a natural reduction of growth. How far we can trust them to keep any promise they may make to us on this head, or how far they have the power of keeping it, is, I fear, doubtful. But on the other hand

if they really would discourage native growth, provided we agree to limit our production, it may be the best course for us to come under some obligation to this effect".[154] There was no evidence Argyll pointed out, that "the Chinese Government would be willing to meet us halfway".[155] Moreover, the Indian authorities feared that if Indian exports of opium were reduced the vacuum might be filled up by other foreign products which were so far unsuccessfully competing with Indian opium. If India reduced or stopped her opium export she would virtually "hand over to the Persians, the Americans, or some one else, the millions we are now spending, I hope, for the good of the people of Hindustan".[156] Mayo, therefore. was unwilling precipitately to enter into any agreement. Most of all, he was against any "sentimentalism" in this matter; "if we wish to get out of the crime of poisoning the Chinese it can only be done by a very slow process."[157] Alcock's plan was shelved because of these considerations—doubts about Chinese willingness to come to an agreement, the impotence of the Chinese Imperial Government to implement its declared policies, the reluctance to surrender the Chinese market to India's competitors. Moreover, it was realised that Indian opium would still hold its own in China for years to come—Indian opium was of superior quality, the total Chinese consumption was increasing rapidly and the Chinese Government was as powerless to drive out Indian opium as to put a stop to indigenous production. Indeed the panic in the late 1860's that opium revenue was in immediate danger was, if not a false alarm, a premature one.

III

The guiding principle behind the tariff policy was that taxation was for revenue purposes only and tariffs must not be of a protective nature. As Samuel Laing said, while

announcing the reduction of import duty on cotton twist and yarn, "the principle of Free Trade is to impose taxes for purposes of revenue only" and customs duty must not "stimulate growth of a protected interest".[158] As a matter of fact Laing was so alarmed at the news of cotton mills being started in India "on the strength of the high duty" that he declared that "if yarn be a fit subject of taxation there ought to be an excise on native manufacture, equal to the customs duty on the manufactured article". This principle was again clearly stated in the Government's despatch to the Secretary of State on duties on jute manufactures : "no import duties are levied in India for other than purely fiscal purposes. In framing our Import Customs Tariff we have not been influenced in the slightest degree by a wish to protect native manufactures, whether of jute, cotton, or other material".[159] The manufacturing interests in Britain, of course, approved of this principle but were not always sure whether the Government of India was acting on them. They were impatiently urging the abolition of all duties : the Manchester Chamber of Commerce in 1862 and the Dundee Chamber of Commerce in 1869 demanded the privilege of import into India duty free.[160] The agitation for repeal of all Indian import duties did not, however, succeed until 1882 because the state of Indian finances did not allow the Government to give up the substantial customs revenue.

The vigilant watch kept by British manufacturing interests on Indian tariff policy is understandable. To the Lancashire manufacturers India was the most important market. Of the total amount of Lancashire piece goods exported from England 29.7 per cent went to India in 1860, and about 28.4 per cent in 1870.[161] Except for a brief period during the post Mutiny financial crisis throughout the period under review there was a very moderate duty of 5% on British piece goods. In the brief period between 1859-60 and 1861-62 the duty was raised to 10%. Import of cotton piece goods steadily increased. The

average annual import of piece goods into India in the period 1858/59-1861/62 was worth £ 8.95 million ; the corresponding figures for the quinquennium 1862/63-1866/67 was £ 10.84 million and for the period 1867/68-1871/72, £ 15.06 million.[162] As regards British cotton twist and yarn, the duty was 5% in 1859-60, 10% in 1860-61, 5% in 1861-62 and 3½% from 1862-63 onwards. The value of average annual imports of cotton twist, yarn and thread amounted to £ 1.65 million (25.36 million lbs.) in the quinquennium 1858/59-1862/63 ; in the period 1867/68-1871/72 this had increased to an annual average of £ 2.81 million (31.41 million lbs.). Lancashire's trade in India was expanding steadily and customs duties were moderate, thanks to the vigilance of the Manchester Chamber of Commerce.

"Indian import duties" Redford comments, "have from 1858 almost to the present time been the greatest meance (at least in the opinion of the Manchester Chamber) to Lancashire's trade with India".[163] The menace which threatened Lancashire interests most of all and which, much more than the tariff policy of the Indian Government, the Manchester Chamber of Commerce found difficult to influence or to combat was the growth of Indian textile industry. In 1859 there were in Bombay Presidency 2 cotton mills, one started in 1853 and the other in 1854. By 1874 there were 14 cotton mills in Bombay Presidency with a total capital of Rs 197.75 lakhs, over 435 thousand spindles and 4883 looms ; their monthly production amounted to more than 2,614,000 lbs. of yarn and 1,230,000 lbs. of cloth,[164] There were 6 mills in Calcutta (107,130 spindles and 200 looms) and 4 up-country mills (58,882 spindles and 387 looms). Thus all told there were 24 mills which had between them 601,738 spindles and 5,460 looms The cotton mill industry was, however, an infant industry which did not yet threaten Manchester's trade with India and other markets.

The traditional cottage industry although much enfeebled by the 1850's, was still supplying cloth to a large section of the rural population. The Chamber of Commerce of Calcutta in 1863 requested the Government to conduct a survey of the condition of the cotton weaving industry in northern India : it was feared that cotton "admits of being manufactured into cloths at a less cost than that paid for Manchester goods, and that local manufactures on an extended scale would go far to account for the very feeble demand that comes from upper and north-western provinces".[165] In 1863-64 an extensive enquiry was conducted by district officials in the North-Western Provinces, Oudh, Bengal and the Central Provinces. The enquiry revealed that on account of the rise in cotton prices (during the American Civil War which caused a 'cotton famine' in Lancashire and a boom in raw cotton export from India) the Indian cotton weavers were unable to buy raw material and were unable to offer their goods at a rate much cheaper than the imported cloth. In the North-Western Province indigenous cotton weaving industry was "steadily declining—those hitherto employed being attracted by the higher rate of wages obtainable in other departments of industry ; . . . the price of the coarser stuff manufactured in the country is said to have increased in a greater ratio than that of English stuff—the increase in the former being 200 or 300 per cent and that in the latter only 150 to 200 per cent".[166] In the western districts of the North-Western Provinces one-sixth or one-fourth of the looms had stopped working while in the eastern districts "trade was altogether decayed" and one-third or half the looms had stopped working.[167] "The weavers have betaken themselves to agricultural or other labour, to menial service, emigration to the Mauritius and elsewhere, and even to begging".[168] The situation was similar in Oudh, Bihar and Bengal districts and in the Central Provinces : weaving (except for home consumption in prosperous cotton producing regions)

had declined because weavers could not buy cotton at the prevailing high price and sell at a profit.[169] One reason why the cottage industry was surviving, inspite of adverse conditions, was that its products suited the rural consumers. "The answer [to the question how native weaving was surviving] is that native cloth is a tougher, firmer and more durable article than the English cloth made for export to this country, and more suited to the rough and out of door work of the labouring classes. The working man . . . finds it more economical than buying the lighter and fine machine-woven English cloth . . ."[170] However, the consumption habits, it was expected, would change and the Lancashire mills might manufacture cloth having the characteristics of the indigenous fabric, and offer it at a low price. Sir Charles Trevelyan predicted : "when Manchester sets to work again, she will find her rival local manufacturers converted to an unexpected extent into ready-money customers". Most of the weavers had fallen back on cultivation of the land. "The great majority like our own Hand-loom weavers, were half agriculturists before ; and their absorption in the agricultural class has been a benefit both to England and India. Such are the wonderfully productive powers of India, that agriculture must always be her staple industry. Another long step has been taken in the direction".[171]

The last statement is typical of a familiar pattern of thinking which premised a simple "division of labour" between India, the supplier of raw materials, and Britain, the producer of manufactured goods. The pattern of trade which appeared natural to the majority[172] of British mercantile community was one where, to quote from a petition from the Bengal Chamber of Commerce to the Governor-General, there was "freedom from restraint in trade permitting the profitable exchange of manufactures, which the soil, climate, capital and industry of these countries [England etc.] enable them economically to

produce, for those raw staples in the production of which this country has especial advantage".[173] To the manufacturers in England India was as much important as a market as it was as a source of supply of some essential raw materials. In the 1860's the Manchester Chamber of Commerce and the Cotton Supply Association, aided by the so-called "cotton M.P,s", put pressure on the Indian Government to develop the raw cotton supply and to remove all obstacles inhibiting supply to Lancashire, suffering (particularly during the American Civil War) from scarcity of raw material. The fabric manufacturers were also interested in developing raw jute, flax and hemp supply. James Wilson in the first budget statement (1860) laid down the principle that raw materials which were used in England and which had to compete abroad with products of other countries, must be taxed as little as possible.[174] "With regard to an import duty all that you can generally say is that it adds to the cost, and is a tax on the consumer. But with regard to export duties . . . your duty may exclude the article from the foreign market altogether". This would be a great loss because jute, raw cotton, hemp, hides, wool etc. were "raw materials of the great manufacturing countries of Europe and capable of unlimited extension". To encourage the export of raw materials, Wilson declared, was "the best means of improving our internal resources". This became an accepted axiom of fiscal policy. In 1865 when Sir Charles Trevelyan imposed export duties on Jute, Wool, Hides, Silk, Tea, Coffee and Sugar the Secretary of State warned the Indian Government that these duties would produce "an unfortunate effect as the trade between India and this country".[175] He informed the Governor-General in Council that he would not sanction the proposed export duties, although this was a course "which sanctions a prospective deficit".[176] Sir Charles Wood the Secretary of State in one of his private letters to Governor-General Lawrence said that the repeal of the income tax in

India and the imposition of the export duty in Trevelyan's budget was a mistake; it was unfortunate, he wrote, that the Government of India had decided to "take off this [Income] Tax and impose on the English Planters and English Trade . . ."[177] The planters referred to were the English capitalists in the coffee and tea industry: since 1860 they were allowed to export free of duty as a means of attracting European capital. It is difficult to say if similar considerations influenced the policy with regard to timber, coal and iron; there was considerable English capital in the Burma timber business and coal mining in India. Timber and wood (1860) and coal and iron (1862) were added to the Free List.[178]

As a part of the policy of developing internal resources—particularly the exploitation of mineral resources, production and initial processing of agricultural products, and development of a modern transportation system—importation of machinery from Europe was encouraged. As eary as 1845 the Government had resolved to exempt from duty plate iron for the hull of steamers and machinery of all sorts. In 1857 the Government of India issued a notification restricting exemption to plate iron for hulls, machinery used exclusively for purposes of agriculture, navigation, mining and manufactures and machinery for the newly developing railways.[179] Act VII of 1859 was on these lines: machineries not specifically exempted thus, were liable to a duty (10% *ad valorem*). This continued to be the rule until 1867—except for a brief period in 1860-62 when machineries of all sorts were admitted duty free; from 1863-64 the duty was reduced to 7½%. In 1867 the Government of India reviewed its tariff on machinery import. It was felt that it was difficult to distinguish duty-exempt machinery for agricultural, mining and other purposes from machinery dutiable under the Tariff Act. The Government decided to exempt machinery of all sorts since they

were "all imported for purposes more or less conducive to the material prosperity of the country".[180]

In respect of some commodities the tariff policy calls for special comment. The saltpetre trade of India was virtually destroyed in the early 'sixties on account of the heavy duty imposed on it: the Indian export duty made it impossible to sell Indian saltpetre in Europe at a competitive price and the development of the technique of producing artificial saltpetre delivered the coup de grace. The export of saltpetre fell from 20,253 tons in 1862-63 to 16,805 tons in 1863-64 and 11,043 tons in 1864-65; despite reduction of duty in 1865 it continued to decline. The Secretary of State surmised that this was caused mainly by "the inability of the Indian article under the heavy duty which it then labored to compete with the article newly manufactured in Europe".[181]

Raw cotton, which used to pay a slight duty on export from Bengal and Madras to Africa and Asia, was placed on the Free List in 1859. In the period 1856/57-1860/61 on the average 300 million lbs. were exported and the average price was below 5d. per lb. During the American Civil War, prices increased rapidly (reaching 17d. in 1864-65) and exports rose by successive steps to reach 800 million lbs. in 1865-66. From 1865 prices started declining: it stood at 9¼d. per lb. in 1866-67 and 6½d. in 1870-71. The cotton boom was a temporary phenomenon and as soon as the American Civil War ended demand for Indian cotton in Lancashire fell and there was a tremendous slump in the market. As a matter of fact Indian cotton, despite over fifty years' efforts to improve it, was far inferior to American cotton which was of longer staple. As regards export of raw jute, the failure of Russian hemp supplies during the Crimean War provided a break through. Exports rose from £ 409,000 in 1860-61 to £ 2,577,000 in 1870-71. The jute manufacturing industry, developed near Calcutta under Scottish management, started competing with

Dundee in the foreign market, in Australia, New Zealand and South Africa.[182]

In 1869 the Dundee Chamber of Commerce requested the Under-Secretary of the State for India to consider the case of jute manufactures which was subject to a duty of 7½% : "the import tax of 7½ per cent is not exacted solely for revenue, but becomes a protection to native industry, preventing the manufacturers in Dundee competing with similar manufacturers in India, and at the same time allowing the manufacturers in India to compete with Dundee manufacturers in Australia . . . The Directors [of the Dundee Chamber of Commerce] trust . . . the import duty on jute manufactures into India may be abolished".[183] The Government of India disclaimed any intention to protect the Indian jute industry and admitted that jute manufactures may perhaps fairly be classified with cotton piece-goods and taxed at a lower rate of 5% ; the Governor-General in Council answered the Secretary of State that when the tariff would be revised next time "the propriety of assimilating the import duty on jute manufactures with that on cotton piece goods" would be considered.[184] The duty on jute manufactures was altogether removed in 1870 (Act XVII).

The export duty on grains was only 2 annas per maund till 1867. An enhancement was defensible on two grounds : it would bring more revenue and it would be a means of checking the export of the staple food of the people. The Lieutenant-Governor of Bengal in an admirable minute on the subject observed : "It is an actual and undeniable fact that while thousands of poor people in Bengal and Orissa have starved during the last few months . . . hundreds of thousands of maunds have been exported at a profit to foreign countries . . . India it must be remembered is a poor country, while those to which its grain is exported are rich countries. They use the rice of India not only as food but in arts and manufac-

tures and can afford to pay for it, as an article of luxury, a price which to the poorer classes in India, to whom it is an article of prime and vital necessity, is prohibitory".[185] The Lieutenant-Governor of Bengal proposed a duty of 6 annas a maund. Indeed a duty below that would have no effect whatever on the export trade and could not check exportation of food grains. The Governor-General in Council decided on a very small enhancement of duties (from 2 to 3 annas). It seems that the decision was influenced by financial considerations alone, and not much importance was attached to the export discouragement argument. The Government of India expected an addition to revenue of about Rs. 16 lakhs as a result of the increased duty and assured the Secretary of State that there was "no cause for supposing that such a small additional duty would have the slightest effect upon the quantity of grain likely to be brought forward for export".[186] Under the pressure of the business firms in the grains export trade the Government had to reconsider the grain duty soon after its enhancement; the East India Association of Liverpool and merchants in India made representations to the authorities.[187] The Secretary of State, drawing the Indian Government's attention to the agitation for remission of grain duties, observed that it was "more important for the general interests of the country to preserve the trade than to maintain the revenue, even if the two objects were not incompatible".[188] In 1873 the export duty on wheat was removed.[189]

In 1860-61, 28.1% of India's total exports consisted of raw materials for fabrics (cotton, jute, silk and wool); in 1870-71 the proportion had gone up to 43.3%. Rice, other grains and seeds were important items of export (15.57% of total exports in 1860-61 and 14.43% in 1870-71). The products of plantations, *viz.* indigo, tea and cofee, accounted for 7.2% of total exports in 1860-61 and 9.23% in 1870-71. In 1860-61 manufactures such as jute goods (1.09%), saltpetre

(2.01%) sugar (2.99%) and oil (0.75%) constituted a small proportion of total exports and the situation had not changed very much in 1870-71.

The statistics of important commodities of import in 1860-61 and 1870-71 indicate that the bulk of imports were manufactured goods. In 1860-61, 39.63% of total imports, and in 1870-71, 46.82% of total imports were cotton piece goods. Cotton piece goods, cotton twist, thread and yarn, silk goods and woollen goods taken together constituted 49.13% of total import in 1860-61 and 60% in 1870-71. Machinery, railway materials and metals (manufactured and unmanufactured) together accounted for 20.81% of total imports in 1860-61 and 11.31% in 1870-71 : the decline was due to the slackening of railway building after the first spurt. Import of alcoholic drinks—malt liquor, wines and spirits—amounted to 15.3% of total imports in 1860-61 and 6.93% in 1870-71. In 1870 Britain took about 50% of Indian exports and was supplying over 80% of India's imports.[190] In the 1880's the Government was more than ever responsive to the pressure exerted by the British manufacturing interests to lower or to abolish altogether import duties on their products. The encouragement of raw materials export remained a cardinal principle of tariff policy. The tariff policy alone could not, of course, establish the desired 'division of labour' between England and the Indian Empire—the former producing industrial goods and the latter supplying raw materials. But it was considered the duty of the Indian Government, as James Wilson and Samuel Laing had laid it down, sedulously to avoid tariff measures which would, directly or indirectly, offer protection to indigenous industry. The continuity of this policy up to the 1920's and some other aspects of the tariff policy have been discussed elsewhere.

IV

The duty on salt was one of those indirect taxes which fell mainly on the poor. The official spokesmen of the Indian Government often claimed that it was the only tax—excepting land revenue—which the mass of the people paid to the Government. On this ground the duty was gradually screwed up during the period under study to a point where the salt duty became oppressive and caused a fall in the consumption of salt. The average annual revenue from this source was about Rs. 3.8 crores in the years 1859/59—1862/63 : this was nearly 10 per cent of the total revenues of India. In the quinquennium 1867/67—1871/72, the average yearly revenue from the salt duty had gone up to Rs. 5.8 crores which was nearly 12 per cent of the total annual revenue from all sources.

The salt duty was collected on different systems in different provinces. In Bengal there were two sources of salt revenue : first, the sale of salt (manufactured in Bengal under direct Government supervision) by the Board of Revenue; and secondly, an import duty on salt. Due to the damp climate and the fresh water released by rivers the coastal areas of Bengal did not produce salt on a large scale : in Midnapore and the Twenty-four Parganas there were, however, a number of manufacturers whose produce was stored in Government warehouses and sold by the Bengal Board of Revenue at a price fixed on the basis of the cost of production and prevailing rate of import duty.[191] In 1863 salt manufacture in Bengal under Government control was abolished; no further advance of money (*dādan*) was given to the salt manufacturers and salt manufacture in Bengal stopped altogether.[192] Consumers benefitted from this change because wholesale prices fell by 50%; the imported foreign salt was much cheaper; but the people who used to depend for their livelihood on the manufacture of salt suffered a great deal.[193] The import duty on salt

was Rs. 2-8 annas per maund in 1857-59. In 1859 the Government raised the salt duties all over India : in Bengal the duty was raised to Rs. 3 per maund ; the duty was again raised in 1861 to Rs. 3-4 annas per maund.[194] As Fawcett pointed out, the import duty in 1870 was about 700% on prime cost. But the official point of view, Sir Cecil Beadon said, was that "the expediency of a tax must be measured rather by the ability of the people to bear it and to pay it," than any calculation of percentage on its original cost.[195] Possibly the government was influenced by the manufacturing interests in England. The Salt Chamber of Commerce of Northwich put pressure on the Indian Government to induce them to give preferential treatment to salt exported from Britain.[196] The Northwich Chamber also made representations to the Secretary of State to remove alleged obstacles to the importation of Cheshire salt into India.[197] Though the government put a stop to manufacture of salt in Bengal the people in India had some prejudice against foreign salt : for a few years they were not "reconciled to the English Salt".[198] By 1862 the Government of India could report to the Secretary of State with satisfaction that the prejudice against English salt was dying off.[199] To the Government it was a matter of indifference whether the revenue came from sale of indigenous salt or import duty on foreign salt, but to the local manufacturers in Bengal the closure of the Government Salt Agency was ruinous.[200]

The system of salt duty in Bombay was quite different from that of Bengal. The salt produced by solar evaporation along the coast line was subject to an excise duty ; in the northern parts of the Presidency there were a few government owned salt works from which salt was sold at a price fixed by the Government on the basis of cost of production plus the excise duty ; but the bulk of the salt produced in Bombay was from private manufacturers holding license and subject to the

supervision of Internal Customs Department. The excise duty in Bombay was much lower than that in other provinces: in 1857-59 the rate was only 12 annas per maund. In August 1859 this was raised to R. 1 per maund and in April 1861 it was again raised by 4 annas. In 1865 the Government of India sought the advice of the Bombay Government on the question whether a further increase of salt excise duty was feasible: the Bombay Govrnment thought that the duty could be increased "without much risk of exciting opposition" though some form of income tax on the rich was preferable to "an addition to the burden of taxation on the poor." The Government of India decided to raise the duty to R. 1-8 annas per maund. In October 1869 the duty was again revised and increased by 5 annas. Thus in 10 years the salt duty in Bombay increased by 80%.[201]

The Madras system was that of a Government monopoly. The salt produced by evaporation on the sea coast by local manufacturers was delivered to the Government on the basis of a system of contracts; the Government sold salt at a fixed price and the salt "duty" was actually the monopolist's profit from the sale of salt.[202] The selling price of salt was gradually raised: it was R. 1 in 1857-59, R. 1-2 annas in 1859-60, R. 1-6 annas in 1860-61, R. 1-8 annas in 1861-64, R. 1-11 annas in 1865-69 and finally reached Rs. 2 in 1869. The wisdom of raising the duty at a rapid rate was doubtful, because the salt revenue could perhaps be increased by selling salt at a cheap rate to a large number of consumers than by selling it at a high price in a restricted market. The Government of India justified the increase of salt price in Madras on the ground that it was a step towards the equalization of the salt duties in all provinces.[203]

Punjab had salt mines of her own. The selling price of salt from Government salt mines was Rs. 2 in 1857-59, Rs. 2-2 annas in 1860-61, Rs. 3 in the period 1861-69 and Rs. 3-1

annas from July 1870 onwards. The Sambhar Lakes were developed as a source of salt supply. Mayo obtained the lease of the salt lakes of Sambhar : pressure was put on the Raja of Jodhpur to persuade him to enter into a treaty.[204]

Since the rate of salt duty differed from province to province internal smuggling was a problem. The salt department had a large staff for the collection of revenue and prevention of smuggling or illicit manufacture of salt. The Commissioner of Internal Customs had under him European Assistant Commissioners and native officials known as *Sir Karkoon* (who received excise duty and examined accounts of salt works), *sazedar* (who weighed salt and took stocks), *daroga* (head of smuggling preventive force), *nakedas* (peons assisting the daroga) etc. A large staff was also maintained to guard the inland customs barrier : supervisors and collectors in each customs *Chowky* (i.e. outpost) and *darogahs, kotegusht, jamadars* to guard the line and clerks and *moonshiffs* to issue the *rowanahs* or passes. In 1869 there was a customs barrier 2300 miles long from the Indus to the river Mahanadi in Madras and another 280 miles long in Bombay from Dohud to Rann of Cutch. The customs line was manned by 12000 guards and petty officers.[205]

It was realised that the inland customs barrier was an obstruction to internal commerce and that expenditure on its account was a burden on the Government. But so long as there was a marked difference in the rates of duty in different provinces smuggling would be profitable and evasion of duty would be difficult to check. It was, therefore, the policy of the Government gradually to raise salt duties in all provinces to the same level ; only through the equalization of salt duties the government could abolish the inand line of preventive officers. The agreement concluded with Jaipur and Jodhpur about the lease of Sambhar Lake to Government of India made it possible in 1874 to reduce by 800 miles the customs

line maintained hitherto to exclude salt from those parts into British India.[206] In 1877-79 a series of agreements were concluded with the native princely states of Rajputana and Central India (Alwar, Bhawalpur, Jhallowar, Kotah, Narsingarh, Rajgarh, Rutlam, Cambay, Tonk, Bhopal, Baroda, Goaliar etc.) for controlling manufacture of salt in those states.[207] Until this was done the customs line had to be maintained to prevent smuggling of salt from those states into British India. In the policy of equalization of salt duties the revision of duties was always upwards because the government could not afford to reduce its revenue : indeed enlargement of the revenue was as strong a motive as the desire to equalize salt duties.[208]

The salt duty was the only indirect tax which affected the masses of the people. It was in effect a poll tax. The official point of view was that salt was most suitable for taxation being an article of universal consumption ; moreover, since the tax was superadded to the cost price, the people did not resist the tax as much as they would have if a direct tax had been levied. The ease of collection was indeed the strongest argument in favour of indirect taxation. Not only salt but sugar also was subject to a duty in some parts of the country ; the idea of levying a duty on tobacco was also considered by the Government in 1861-63 but this plan was abandoned because neither a Government monopoly like opium, nor a license tax on dealers or cultivators of tobacco was found practicable.[209]

That an indirect tax like the salt duty was easy to collect was the very reason why the Indian Government should have exercised caution in raising the salt duty. Secretary of State Argyll warned the Indian Government that salt duties might be "very heavy and unjust without the fact being perceived or understood by those on whom they fall".[210] It appears that the salt duty affected the consumption of salt. According to one estimate made in 1870 the average consumption of salt was below 9 lbs. in Bengal about 12 lbs. in

Madras, nearly 15 lbs. in Bombay; these figures may be compared with those of Britain and France where average annual consumption was 22 lbs. and 18 lbs. respectively.[211]

The wealtheir classes were not affected by salt tax as much as the masses. The members of the British Indian Association urged the Government to increase salt tax and to reduce or abolish the income tax.[212] The Bengal Chamber of Commerce was also of opinion that the income tax might be got rid of by increasing the salt duty which, in their opinion, formed "a very small deduction from the annual earnings of the agricultural and operative classes".[213] This approach to the question was, as the Government of India pointed out, strongly influenced by class interests. "This was a proposal to shift from a class practically exempt from taxation a very light impost, and to place it on another class, which, if not overweighted, bears according to the existing distribution more than its fair proportion of the public burden".[214] "I cannot see", wrote Richard Temple, "any real or just connexion between an income tax affecting the well to do all over India on one hand, and salt tax affecting the poor . . . The poor in Bombay and Madras cannot be taxed in order to let off the rich Income Tax payers all over India".[215]

V

The Income Tax and other direct taxes levied by the Government of India contributed a very small proportion (less than 5%) of the total revenue. However, the income tax policy has an interest of its own because the tax was an innovation in this country; moreover, the income tax question involved some broad and significant problems of fiscal and economic policy.

When James Wilson came to India the authorities were toying with the idea of direct taxation. Apart from the

Moturpha—the license tax of Madras—direct taxation was unknown. The idea of a license tax had been in the air for the last few years. On the 13th August, 1859 Henry Harington had introduced a Bill for licensing trades and professions in India, but it met heavy weather inside the Council and outside and till James Wilson arrived it could not take a final and acceptable shape. Lord Canning wrote to Wilson that the license tax Bill as "not yet in a right shape" and Wilson. on his arrival, decided to scrap it altogether and to introduce afresh two separate Bills dealing with License Tax and Income Tax.[216]

Wilson's license tax Bill had two salient features. First, it was a tax on a class of people who had hitherto been almost untaxed. These were the artisans, the retail traders, the bankers, the small manufacturers, professional men, etc. Wilson felt that a large share of revenue had so far been derived from land—while those classes which enjoyed the economic benefits of Pax Britannica did not bear their full share.[217] The license tax was a tax so devised that the incidence should fall upon those classes who, unlike the agriculturists, were free of any considerable tax burden. Most of the people subject to this taxation would be exempt from Income Tax because of the smallness of their incomes.

Secondly, Wislon rejected the idea of progressive taxation —"a small and uniform license duty should be imposed upon traders of every class, high and low, but without any attempt at graduation".[218] There were three groups: the first comprising wholesale traders, bankers, manufacturers and professional classes taxed Rs. 10 per annum; the second group, including retail shopkeepers and small manufacturers who worked for local retail sale, were taxed at a rate of Rs. 4 per annum; on the rest—artisans like weavers, leatherworkers, etc.—the rate was R. 1 per year. Wilson took care to point out that this was not progressive taxation, for the tax would apply uniformly

to all in each group irrespective of size of income or business or production.

The License Tax Bill was introduced on the 4th March, 1860 but from the first reading to its enactment it took about a year and a half and the Act XVIII passed in July, 1861, differed in many respects from Wilson's original Bill. Unlike that Bill the License Tax Act introduced a purely temporary tax; the rates of tax as enacted (Rs. 3, Rs. 2 & R. 1 for the different scheduled groups) were also much lower. Wilson did not live to see the implementation of this part of his plan.

The Income Tax Bill which was presented together with the License Tax Bill was, however, passed and all public attention was focused on this measure. Controversy centred round these questions: What should be the lower limit of taxable income? Should the principle of progressive taxation be accepted? Should certain privileged classes be granted exemption from the Income Tax? How could a method of levy be devised which would be acceptable to the people? And finally, did the post-Mutiny political situation warrant such an experiment or was it safer to postpone it rather than face Anglo-Indian criticism and native hostility?

Wilson found it difficult to fix a suitable lower limit of taxable income. From his private correspondence with Lord Canning it seems that he thought at first that annual incomes above Rs. 100 should be subject to taxation. Canning doubted whether this was a reasonable limit. He suggested what might be called sample surveys of selected districts to find out how it would work. "I think this information is necessary both for the defence of so low a limit as 100 Rupees in a Tax which professes to be forbearing towards the lower classes, and in order that we may calculate the extent of hostility which it may provoke".[219] Lord Canning finally decided against the Rs. 100 limit, and a week before Wilson made his Financial Statement, Canning suggested that Rs. 200 would be a reasonable limit

and could "effectually introduce the thin end of the wedge".[220] Wilson announced in his Fnancial Statement (February 18, 1860) that annual incomes below Rs. 200 would be exempt. The Income Tax Bill, when introduced in the Legislative Council on the 4th March, 1860, was widely opposed on the ground that the lower limit of Rs. 200 was too low. Sir C. Wood had already cautioned the Government of India "to guard against the imposition of the tax on incomes of too low an amount. The plan proposed would subject to the tax many classes in the lower walks of life, including non-commissioned Europen officers, and Native officers of the Army and Police corps. I cannot but fear that a tax which reaches these classes would be carried lower than is consistent with sound policy".[221] The classes which Wood mentioned—military, naval and police officers of junior rank—were specifically exempted in the Act. This decision was influenced by disgruntled "barrack-room murmurings" which Canning noted with alarm.[222] Canning suggested to Wilson that exemption should be extended to all soldiers who did not hold commissions.[223]

As in the case of License Tax the Income Tax Bill firmly rejected the idea of progressive taxation. When the second reading of the Bill was taken up (14th April) a petition came up before the Legislative Council. The petition, submitted by clerks of public and commercial offices, suggested a graduated scale (ranging from 1% to 6% according to size of income) instead of a uniform rate. Wilson, as might have been expected, replied that "to equalise the conditions of men" was not the object of taxation.[224] The Income Tax Bill proposed two rates : 2% on anual incomes below Rs. 500, and 4% on incomes above it. But this was not a concession to protagonists of progressive taxation. "This we do, because if, at the same rate, the double action of the license duty and of the income tax upon this [lower] class of incomes would be rather more severe than in other cases".[225]

The Income Tax Bill gave rise to a controversial question. It was claimed that the landholders, under the Permanent Settlement of 1793, were entitled to exemption from taxation in any form. The British Indian Association, which was dominated by zamindar interests, put forward this view in petitions to the Secretary of State and the Government of India.[226] But this view was rejected by the Government of India, and the Secretary of State approved their action.[227] Wilson said that the architect of the Permanent Settlement, Lord Cornwallis, never confused the settlement of land revenue with the liability of the land holder to be taxed.[228] Wilson further pointed out that when Pitt introduced the Income Tax in England it was decided that there was no case for exemption of the fundholder; there was no question of exemption even where land tax had been commuted for a fixed rate or redeemed. Wilson's case against the 'pretensions of the zamindars' was strengthened when he found an ally among the zamindars. This was the Maharaja of Burdwan who wrote to Wilson supporting his 'admirable system of taxation'. Dissociating himself from those, who were opposing the Income Tax, he wrote: "this opposition... ..[is] founded upon the false assumption that it is a breach of the Permanent Settlement".[229] Sir Charles Wood and James Wilson attached great importance to this letter, though it could hardly be taken as representing the general opinion of the zamindar class.[230]

The landholders and intermediary middlemen were an influential class. "We are", Canning wrote to Wilson, "about to vex the towns with a License Tax. We must therefore be doubly careful that not only the mass of the Agricultural class, but those who, being a little above the mass, exercise much influence in their villages, shall not be tempted to range themselves against us".[231] Wilson tried to devise a mode of levy that would not offend Indian susceptibilities. It was feared that the native people would resent 'inquisitiorial proceedings'. Like

the English Act, Wilson's Bill provided checks in favour of secrecy, imposed oaths of secrecy on the officers, and had provisions for a special Commission to whom tax payers may apply to be assessed. The Government hoped to shape the practical working of the tax through the aid of *punchyets,* and by using largely the instrumentality of the "heads of towns and trades". In order to avoid the annoyance of annual assessment Commissioners were empowered to compound for a lump sum for the whole period of five years. In addition to these provisions in the Act, the instructions to the Commissioners for the Management, Assessment and Collection of Income Tax underlined the necessity of reducing popular apprehension concerning "the vexatious inquisition, the inconvenient revelations, and the consequent malpractices",[232] Charles Wood congratulated Wilson on his success in making "a disagreeable thing so little disagreeable".[233] Wilson probably knew that the bankers would be most hostile to this new tax—but he was sure that there was "as little sympathy for great capitalist bankers in India as there was in London in favour of the Lombard Jews of Lombard Street when they were exposed to forced contribution to the state".[234] For the convenience of bankers and traders, forms of income tax returns were modified (as proposed by a special committee consisting of Harington, Temple and Prosonno Coomar Tagore).[235] But this was not enough to satisfy them. A petition from Bombay stated the case of the Indian bankers. "A connexion exists between income and credits on one hand and outstanding claims and liabilities on the other .... The Bankers are very desirous of possessing such information in regard to each others affairs".[236] Such information may leak out leading to the failure of many banks. In Calcutta similar complaints were made : a deputation of Marwaree traders submitted to the Government of Bengal that commercial discredit would

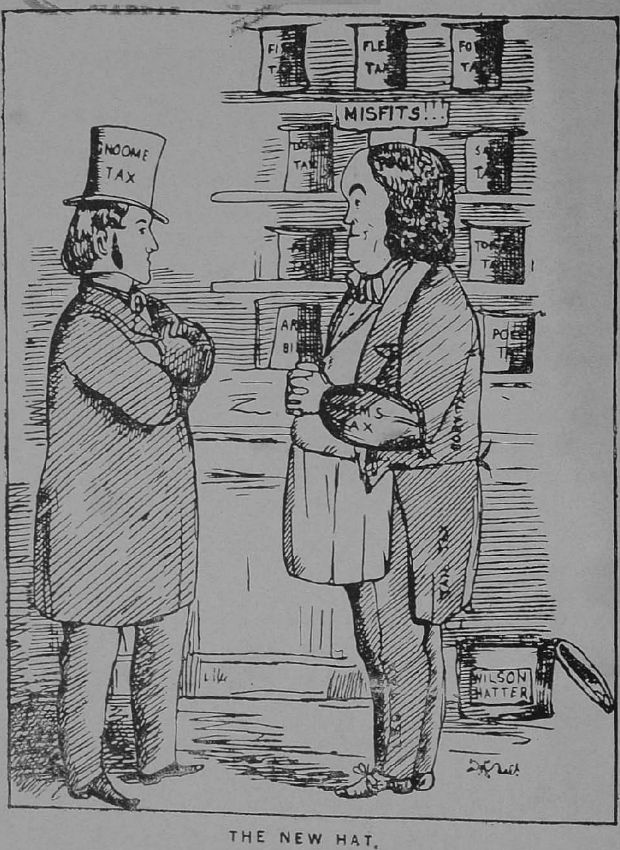
result if they disclosed "how much of the money employed by them in trade was their own, and how much belonged to others".[237] The President of the Income Tax Commission, Mr. A. Grote, admitted that "the partnerships in their [Marwarees'] Cooties [business houses] are of most complicated character" and public enquiry was disturbing.[238] The Bombay bankers and traders were not as much vocal as the Zamindars in their opposition to the income tax—they had their own subtle and unscrupulous methods of self-protection. The Bombay bankers explicitly said in their petition: "people actuated by interested motives will hence-forward learn to keep false accounts. . . ."[239]

The returns for all India with its (approximate) 130,000,000 of people under Wilson's Income Tax were 53,000 incomes of Rs. 1000 and upwards, 141,500 incomes of Rs. 500 to Rs. 1000, and 500,000 incomes of Rs. 200 to Rs. 500. In Bengal with its 40,000,000 of people, only 21,000 incomes were returned at above Rs. 1000 a year. It could be argued that in a poor country like India the tax was a heavy burden *if its incidence* was spread widely on the lower income groups, while the tax was uneconomic, considering the cost of tax collection and assessment, if the tax was confined to the very small class of high income earners.[240]

As has been mentioned before, the Income Tax was levied at the rate of 2 per cent on incomes between Rs. 200 *and 500* a year and of 4 per cent on incomes exceeding Rs. 500, without any attempt at graduation above that limit. It was soon perceived that it was useless to tax income so low as Rs. 200 because the cost of collection was not commensurate with the total collection; moreover, chance of evasion was higher lower down the scale. About two-thirds of the *income tax payers* belonged to this category (i.e. the Rs, 200-500 income bracket) while they contributed only one-fifth of the tax revenue. These considerations influnced the decision of the Government to

Charles John, 1st Earl Canning, Governor-General of India (1856-62) :
'Clemency' Canning as seen by the Anglo-Indian :
"The Headmaster of the Govt. School."

(*The Indian Punch*
March, 1860, Vol. 2, No. 3)



THE NEW HAT.

Canning tries on hats made by the hatter. "the Horrible James Wilson".

(*The Indian Punch*
August, 1860, Vol. 2, No. 8)

exempt the lower category of tax payers from the tax, and the rate of tax was lowered from 4 to 3 per cent.[241] The decision was taken at the instance of Samuel Laing; he was always sceptical of the efficiency of the Income Tax as a financial cure all. Only a few months after the enactment of the income tax law framed by Wilson (who died shortly after) Samuel Laing in his Financial Statement of 1861-62 said that the income tax was not likely to yield as large a revenue as had been expected by Wilson.[242] Next year Laing exempted the Rs. 200-Rs. 500 income group. His successor, Sir Charles Trevelyan was always a stern critic of the income tax and this was one of the issues in his debate with James Wilson in 1860 which led to Trevelyan's recall and temporary disgrace. Trevelyan first reduced the rate[243] and then, in the Financial Statement of 1864-65, the firm resolve of the Indian Government to give up the Income Tax on the expiry of the five year term was declared.[244] There were some members of the government and some important officials who were not in favour of this plan. As a matter of fact the Governor-General Lord Lawrence himself was in doubt whether the government was really in a position to give up this source of revenue.[245] Sir Bartle Frere advanced a very ingenious argument that (contrary to the general impression that Wilson's income tax had been enacted for only five years) while 3 per cent was a tax for a short period of five years and thereafter to expire, 1 per cent was earmarked for local public works construction and meant to be permanent.[246] But even the advocates of permanent income tax could not ignore the strength of popular feeling against direct taxation and its concommitant evils like inquisitorial enquiries and arbitrary assessments. Therefore the tax was allowed to expire on the 31st July, 1865. The gross amount realised from the income tax in five years was about Rs. 8 crores and excluding cost of the establishments employed

in collecting the tax Rs. 7.6 crores was the net proceeds of the tax.

One of the defects of the Income Tax was that the system of assessment was inefficient. The Act of 1860 provided for annual assessment. But before the first year of the operation of the Act was completed, another Act was passed authorizing the Governor General in Council to continue the original assessments for another year and in May 1862 this power was extended to another three years. Such a decision was forced on the government because it was found that the process of assessment was exceedingly troublesome.[247] The result was that in 1865 tax payers were paying taxes on the basis of old assessments. The assessment has become obsolete in every sense.[248]

The experience of the first Indian income tax showed that contrary to the dark prophecies of some officials and of the Press, direct taxation in India was not an impossibility. At the same time the experience proved that public opinion was so strong against income tax that it was unwise to take recourse to that expedient except under exceptional circumstances. Moreover, an administrative infrastructure was needed for the efficient assessment and collection of the income tax. The Government believed[249] that the popular reaction against the tax was not so much due to the inherent nature of the tax itself, but the malpractices[250] of the lower class of ill-paid native employees who administered the tax under the inadequate supervision of overworked British officers who had other responsibilities to discharge. The Press was against the income tax; the newspapers reflected the views of the commercial and property owning and professional classes who, for the first time, found themselves directly taxed at a relatively high rate.[251] This class was the most vocal against the tax. The mass of the people, especially after the exemption of the

lower income group (range of income of Rs. 200 to Rs. 500), were hardly touched by the income tax.

Whatever the drawbacks of the income tax were, it was quite plain that the government could not cope with the deficit without resort to direct taxation in some form or other. The government found it necessary to levy direct taxes in the shape of License Tax (1867) and Certificate Tax (1868) and ultimately to revert to Income Tax (1869). The Finance Member said in the closing year of the Income Tax: 'it should be regarded as the great financial reserve of the country; and it will now be laid on the shelf complete in all its gear, ready, to be imposed in case of any new emergency'.[252]

The various assessed taxes—income, license and certificate taxes actually yielded a very small amount of revenue.

Revenue derived from Assessed Taxes
1858/59–1872/73

Year beginning		Amount in Rs. (lakhs)
1858	Mohturpha	1.1
1859	,,	2.2
1860	Income Tax (Act XXXII of 1860) at 3%	11.0
1861	Income Tax (Acts XXXII of 1860 and XVIII of 1861) at 3% and License Tax	20.5
1862	Income Tax (Act XXXII of 1860) at 3%	18.8
1863	Income Tax (Act XXVII of 1863) at 2%	14.8
1864	,,	12.8
1865	,,	6.9

Year beginning		Amount in Rs. (lakhs)
1866	Income Tax repealed	0.2
1867	License Tax (Act XXI of 1867) (a)	6.5
1868	License Tax (Act IX of 1868) (b)	5.1
1869	Graduated Income Tax (Act IX of 1869) (c)	11.1
1870	Income Tax (Act XVI of 1870) (d) of 6 pies in Rupee	20.7
1871	Income Tax (Act XII of 1871) of 2 pies in Rupee (e)	8.2

(a) Rs. 200 minimum

(b) Rs. 500 „

(c) Rs. 500 „ 1% on salaries, afterwards raised to $2\frac{1}{2}$%

(d) 6 pies in the Rupee, Rs. 600 minimum

(e) Rs. 750 minimum

Apart from the small amount of revenue from assessed taxes the other fact which strikes one is the frequency of change in the form of the tax. This shows that the Government was not very happy with the various taxes devised in this period.

Although the idea of progressive taxation had been firmly rejected by the Government the principles of equitable taxation could not altogether be ignored. The principle of exemption of subsistence minimum was accepted by the Government. Under Wilson's Act (XXXII) of 1860 the lowest income subject to tax was Rs. 200. Laing exempted (1862) all income below Rs. 500 : he found that in 1861-62 about 600,000 persons

earning Rs. 200 to Rs. 500 were assessed and the gross return from this group was only Rs. 35 Lakhs of which at least Rs. 10 Lakhs was absorbed by cost of collection. On administrative ground alone—the high cost of collection and the low return from assessing a large group of low income-earners—it was advisable to exempt income below Rs. 200 per annum. None of the subsequent assessed taxes (except the license duty of 1867) went below Rs. 500; in 1870 (Act XVI of 1870) the limit was raised to Rs. 600 and in 1871 (Act XII) it was again raised to Rs. 750.

The principle of equity also meant that discrimination against a particular class was to be avoided. This was the ground on which Temple defended the conversion of the License Tax (on commercial and professional classes) into an income tax.[253] In this connection we may note a point made in the Calcutta Trades Association memorial to the Secretary of State. "An Income Tax which presses equally upon incomes derived from realised property, on incomes derived from terminable sources and from professional earnings cannot be described as a fair and equal tax"; the petition said that it was unfair that rentiers were being taxed at the same rate with artisans and traders while the rentier's contribution in the economy was minimal.[254] This was also the chief point of another Calcutta memorial: the tax was severe on those who enjoyed "the fruits of their industry" and the latter demanded fiscal differentiation between them and the property owning classes.[255] The Bengal Chamber of Commerce took their stand substantially on the same ground.[256] But differentiation on the basis of source of income went against the orthodox financial principles.

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14 Rev. Progs, Apr 1867 no 7, H.W I Wood, Secretary to Bengal Chamber of Commerce to Secretary, Home Dept. Govt. of India. 22 March 1867.

15 Petition of 3646 Native Merchants of the town and island of Bombay, 12 Oct. 1859 *Correspondence on Direct Taxation* (Calcutta, 1882) vol. I, p 30.

[16] Vide Petitions from Calcutta (1859 & 1867), Bombay (17 Oct. 1859) Madras (22 Sept. 1859). Ahmedabad (31 Oct. 1859). *ibid,* I, pp. 25-30

[17] Cf F. Shehab *Progressive Taxation : a Study in the development of the progressive principle in the British Income Tax* (Oxford, 1953) p. 104, 115 et. seq.

[18] Govt of India to Secretary of State Fin. no 144, 29 June 1860. Cranborne to J. Lawrence 3 Nov 1866, Letters from Secretaries of State vol. III. no 39. Mayo to Argyll, 8 March 1869, bundle 34, no. 76. Mayo Papers

[19] J. P. Niyogi *Evolution of Indian Income Tax* (London, 1929). Ch I-II.

[20] J S. Mill to W. T. Thornton, 28 Jan 1862 *The Letters of John Stuart Mill* (Ed. H. S R Elliot, London, 1910), vol I, p 258 J S. Mill to H. S. Maine, 1 Jan 1869 *ibid.* vol II, p. 169. The influence of Utilitarian economists in 19th Century may be likened to that of the Physiocrats in the eighteenth, only it was more ubiquitous. Cf. Ranajit Guha *A Rule of Property for Bengal* (Paris, 1963).

[21] Report by Col. Baird-Smith dt 14 Aug. 1861. P.P H C. vol 40, cd 29, p 301, Home Progs. 7 Oct 1861. Public no 20-26 Lord Canning's Memorandum dt 3 Oct. 1861 (K W) drawing attention to paras 62-82 of Baird-Smith's Report recommending Permanent Settlement of revenue.

[22] Home Rev Progs. Feb 1862, no. 2 Sir G Souper, Secy to Govt of North-Western Provinces, to W Grey Secy. Government of India, 27 Jan 1862

[23] Minute of dissent by R D Mangles 3 July 1862 P P H L 1863 vol 22 col. 87, pp. 181-186.

[24] Secretary of State to Government of India, Rev Despatch no 14, 9 July 1862.

[25] Secretary of State to Government of India, Rev. Despatch no 2, 31 Dec., 1858.

[26] Secretary of State to Government of India, Rev Despatch no. 14, 9 July, 1862.

[27] Opinion recorded by Sir J. Lawrence, 5 July 1862. P P H L. 1863 vol 22, cd. 87, pp 187-92 Canning also recommended the Permanent Settlement to Wood on the ground that it would bind the landlords to the British Government . "It would be worth an army of European troops" Canning to Wood 8 Oct 1861,

Wood Papers, v. S. Gopal *British Policy in India 1858-1905* (Cambridge, 1965) p. 11.

[28] Report by S. Mansfield, Commissioner of Scinde, no. 188. 3 July 1863 H.C. 1863, vol. 43, cd. 164, pp. 617-19.

[29] Home Rev. Progs Sept. 1862 no. 37 Minute by W. Muir, 5 Dec. 1861.

[30] Home Rev. Progs. Sept. 1862, no. 29 Minute by S Laing, 7 Apr. 1862

[31] Home Rev Progs. Sept 1862 no. 22, Secy. Govt of Fort St. George to Govt. of India, 8 Feb. 1862, *ibid.* no. 37 Minute by W. Muir, Board of Revenue NWP. 3 Dec. 1861.

[32] T. J. Hovell-Thurlow *The Company and the Crown* (London, MDCCCLXVI) p. 239.

[33] Edward West *Emigration to British India : profitable investment for Joint Stock Companies and for emigrants who possess capital* . . . . (London, 1857). On the influence of E. G Wakefield's programme of development through, colonisation vide Brinley Thomas *Migration and Economic Development* (Cambridge 1954) pp. 1-14

[34] One of the earliest references to plans of using petroleum resources is in Mayo's letter to Argyll, 8 Aug 1869 Mayo Papers, bundle 36, no. 192

[35] Court of Directors to Govt of India, no. 6, 6 May 1857.

[36] Secretary of State to Government of India, Rev Despatch no. 2, 31 Dec 1858

[37] *Annual Reports of Cotton Supply Association,* no 2, 1859 and no 5, September 1862. Isaac Watts *The Origin and Progress of the Cotton Supply Association,* (Manchester, 1871) pp 119, 125, 131.

[38] Home Rev. Progs. 6 July 1861, no 7, Secretary, Cotton Supply Association to Secy Govt. of India, 15 May 1861.

[39] Home Rev. Progs 9 Dec. 1861, no. 2. Same to same 3 Sept. 1861.

[40] Memorials from Directors of Soorsipore Tea Co, Cachar, 6 Feb. 1861 ; Indigo Planters' Assocn 20 Nov 1860; Coffee Planters of Coorg, 25 June 1862, P.P.H.L. 1863, vol. 22, cd. 87 p 160-61. *ibid* p 162. Memorial from Landholders and Commercial Assocn. 31 May 1861

[41] Home Rev Progs 28 Feb. 1861, no 26. Resolution by Govt. of India *ibid* Aug 1862, nos 12-15.

[41a] Home Rev Progs 26 July 1861, no 2 R. Thompson, Board of Revenue to Secretary, Govt of Bengal, 31 May 1861

42 Home Rev. Prog. 1 Oct. 1861, no. 1 Report by P. Saunders, 1 Sept. 1861.
43 Home Rev. Progs. Feb. 1862, no. 2. Secy. Govt. of N.W.P. to Secy. Govt. of India, 27 Jan. 1862.
44 *ibid.*
45 Secretary of State to Government of India, Rev. Despatch no. 14, 9 July 1862.
46 Edward West *Emigration to British India* (London 1857).
47 Minute by the Governor of Bombay, 23 Feb. 1860 P.P.H.L. 1863, vol. 22, cd. 87. p. 32
48 Home Rev. Progs. 1 Oct. 1861, no 1 Report by P. Saunders, Commissioner to Report on cultivation of cotton, 1 Sept. 1861.
49 Home Rev. Progs. Sept. 1862, no. 28 Minute by C. Beadon, 13 Mar 1862.
50 Home Rev. Progs. Feb. 1862, no. 2. Sir G. Couper, Secy. to N.W.P. Govt. to W. Grey, Secy. Govt. of India, 27 Jan. 1862.
51 Home Rev. Progs. Sept. 1862, no. 37. Minute by W Muir, 5 Dec 1861.
52 *ibid.*
53 Home Rev. Progs. Sept. 1862, no 24. Minute by E Maltby. 24 Dec. 1861 and no. 22. Secretary, Fort St. George, to W Grey. Secy. Govt of India, 8 Feb. 1862
54 Home Rev. Progs. Sept. 1862, no. 29 Minute by S. Laing, 7 Apr. 1862.
55 Secretary of State to Government of India, Revenue Despatch no 14, 9 July, 1862.
56 C Wood to J Lawrence 15 Oct 1864, Lawrence Papers, Letters from Secretary of State, vol. 1 no. 55.
57 C. Wood to J Lawrence 12 Aug 1865, *ibid.* vol. II no. 43.
58 Cranborne to Lawrence 3 Nov 1866, Lawrence Papers, Letters to Secretary of State, vol. III, no. 39.
59 Lawrence to C Wood 4 Feb. 1865, Lawrence Papers, Letters to Secretary of State, vol IV. no. 45.
60 Mayo to Argyll 2 June 1871, Mayo Papers, bundle 43, no. 125.
61 *loc cit.*
62 Mayo to B. Frere 3 June 1870 Bundle 39, Mayo Papers, no. 156.
63 Argyll to Mayo 28 Apr. 1871 Mayo Papers, bundle 49, no. 9. Italics in original.
64 Secretary of State to Government of India, Rev Despatch no 14, 9 July 1862.

65 Home Rev. Progs. Sept. 1862, no. 28, Minute by C. Beadon, 13 Mar. 1862.

66 Secretary of State to Government of India, Rev. Despatch no. 11, 24 Mar. 1865.

67 Secretary of State to Government of India, Rev. Despatch no. 17, 17 Mar. 1866.

68 Government of India to Secretary of State, Rev Despatch no. 29, 20 Nov. 1866.

69 Secretary of State to Government of India, Rev. Despatch no 15, 23 Mar. 1867.

70 Government of India to Secretary of State, Rev Desp. no. 7, 26 May 1871.

71 Secretary of State to Government of India, Rev. Desp no. 24 28 Mar. 1883.

72 Secretary of State to Government of India, Rev. Despatch no. 26. 27 July 1871.

73 Secretary of State to Government of India, Rev. Despatch no 14, 9 July 1862

74 *loc cit.*

75 Cranborne to Lawrence 2 Jan. 1867, Lawrence Papers, Letters from Secretary of State, vol. IV. no. 2.

75a In his Financial Statement of 14 February 1859 in the House of Commons Lord Stanley analysed the opium revenue statistics of the period 1800-59. See *Financial Statements relating to India . . . . reprinted from Hansard's Parliamentary Debates* (Calcutta, 1871) pp. 136-137. Gross opium revenue amounted to £ 935,996 in 1810, & £ 1,436,432 in 1820, £ 1,553,895 in 1830, £ 1,341,093 in 1840 and £ 3,558,094 in 1850.

76 Evidence of Cecil Beadon before the Select Committee (1871) Q. 3198, 3199 The Patna Agency included all Bihar districts and parts of Chotonagpur The Benaras Agency covered the Benaras and Allahabad divisions and Oudh.

77 Fin Progs. Oct 1864 Accts no. 105. App. A Report by M. H. Foster & H W. Whiffin (7th September, 1864) p 22

78 J Strachery R Strachey *op. cit.* p. 242.

79 Fin Progs. Sept 1871 Sept Rev. no. 11, Report of Committee appointed to consider the expediency of changing the system of administration in Opium Department.

80 Home Progs 21st October, 1861 Sep. Rev. no 3, E. H Lushington. Secretary, Bengal Government to Secretary Board of Revenue 12 September, 1861.

81 Home Progs. 1st July 1861 Sept. Rev. no. 1 Secretary, Bengal Government to Secretary, Government of India, Home Department, 25th June 1861. *ibid.* no 4. Resolution in Fin Dept. 29th June 1861.

82 Fin. Progs. Accts. March 1860. no. 4 Finance Secretary, Government of India, to Secretary, Government of Bengal, 7th March, 1860.

83 Home Progs. Sep. Rev. 1st July 1861 no. 1 Secretary, Bengal Government to Secretary, Government of India, 25th June, 1861.

84 Home Progs. Sep. Rev. no. 2 Opium Agent, Behar, to Secretary, Board of Revenue, Lower Provinces. 15th February, 1861. The area under poppy cultivation in Bengal was 3,44,650 beegahs in 1957-58 and 341,498 beegahs in 1858-59, 312,707 beegahs in 1859-60 and 2,81,126 beegahs in 1860-61.

85 Leg. Council. A. Progs. (1865) Vol IV (new series) p. 164.

86 Home Progs. Sep. Rev. 27th July, 1860, no. 28, Secretary, Government of Bengal to Secretary, Government of India (Home), 14th July 1860. Sir Robert Hamilton to Secretary, Government of India, no. 460, 4th October 1858; Note on opium by Sir R. Hamilton 13th December 1858.

87 Home Progs Sep. Rev. 27th July 1860 no 28 Secretary, Government of Bengal, to Secretary, Government of India (Home), 14 July 1860.

88 *Loc. cit.*

89 Home Progs. Sep. Rev. no. 29. A. Eden. Offg Secretary, Board of Revenue to Secretary, Government of Bengal, 21st November 1859.

90 *loc. cit.*

91 Home Progs Sep. Rev 15th Sept. 1860. R. N Farquaharson, Opium Agent of Bihar to Secretary, Board of Revenue, Lower Provinces, 14 Apr. 1859.

92 Evidence of C Beadon before Select Committee (1871) Q 3414-3418.

93 Home Progs. Sep. Rev 15 Sept. 1860. Opium Agent of Bihar to Secretary, Board of Revenue, Lower Provinces 14 April 1859.

94 Home Progs. Sep. Rev. 27 July 1860 no 29. Secretary, Board of Revenue to Secy. Government of Bengal, 21 November 1859.

95 Home Progs. Sep. Rev. no. 26. J G. Pughe, Sub-Deputy Opium Agent, Allygunge to Opium Agent of Bihar, 10 March 1859

96 Home Progs Sep. Rev. 15 Sept. 1860, no 23. R. King, Sub-Deputy Opium Agent, Patna, to Opium Agent of Bihar, 10 March 1859.

97 *loc. cit.*

98 Evidence of Sir R. Hamilton before Select Committee (1871) Q. 5008-24.

99 Evidence of Sir C Beadon. *ibid.* Q 3314-21, 3516-34, 3573-75. Evidence of Sir F. Halliday. *ibid.* Q. 5125-32, 5290-92.

100 Evidence of R. N. Hamilton before Select Committee (1871) Q 4889-4909, Q. 4886-87, 4898-4903.

101 Home Progs. Sep. Rev 4 June 1860, no. 4. Secretary, Bombay Government to Secretary, Government of India (Home), 16 May 1860

102 Home Progs Sep. Rev. 4 June 1860, no 8 Secretary (Home), Government of India to Secretary, Government of Bombay, 4 June 1860

103 Home Progs. Sep. Rev. 4 June 1860, no. 1 Government of India to Government of Bombay, 10 May 1860

104 Home Progs Sep. Rev. 14 Sept. 1860, no 18. Memorial from David Sessoon & Co. and other opium merchants to Governor in Council, Bombay, 15 Aug. 1860.

105 Home Progs. Sep. Rev. 22 Oct. 1861, no. 11. Telegram from Government of India to Government of Bombay, 22 August 1861. Home Progs Sep. Rev. April 1861, nos. 1-3

106 Home Progs Sep. Rev Oct 1861, no 10. Agent in Malwa to Commissioner of Salt, Opium a Customer, Bombay 8 July 1861 and 11 July 1861.

107 Home Progs Sep. Rev. 22 Oct 1861, no. 10. Forbes & Co. to Commissioner of Customs 17 July, 1861. no. 16. D. Sassoon & Co. and other opium merchants of Bombay to Sir C. R Clerk, Governor of Bombay, 16 Sept, 1861.

108 Home Progs Sep. Rev. Oct 1861, no 17. Secretary, Government of India to Secretary, Bombay Government, 22 Oct 1861.

109 Government of India to Secretary of State Financial Despatch no. 144, 20 June 1860

110 See J. Strachey and R. Strachey, *op. cit*, p 240

111 L. C A Progs (1870) vol IX (new series) p 207.

112 L C A. Progs (1866) vol. V (new series) p 133.

113 Fin Progs. May 1871, Sep. Rev. no. 16 Major-General H. D. Daly, Home Department, Government of India (4 April 1871).

114 *loc. cit.*

115 L. C. A. Progs. (1868) vol. VII (new series) p 149.
116 J. Strachey & R. Strachey, *op cit*, p. 245.
117 Northcote to J. Lawrence, 26 Mar. 1868 (Lawrence Papers, vol V of Secretary of State's letters to Lawrence, no. 15). Also, Northcote to Lawrence, 8 May 1868 (*loc. cit.* no. 23) & 30 Sept. 1868 (*loc. cit.* no. 47).
118 Government of India to Secretary of State Fin. Despatch no. 245, 22 Sept., 1868.
119 Fin. Progs. Sept. 1868 Accts. nos. 166-185. Views of the Government of India on formation of an Opium Reserve Fund.
120 Fin. Progs Sept 1868. Accts. no. 163. Minute by H. M. Durand (17 Aug. 1868). Fin Progs Oct 1868. Sep. Rev. no. 32. Minute by W. R. Mansfield (28 Aug. 1868).
121 Evidence of Sir C. Beadon before Select Committee (1871) P.P.H C. 1871 vol. 8. cd. 363. Q. 3240-45, 3253-69.
122 J. Strachey & R. Strachey, *op. cit.* pp. 245-247.
123 L. C. A. Progs. (1869) vol. VIII p 119.
124 Fin Progs. Apr. 1868. Sep. Rev. no 6 From Messrs. Jardine, Skinner & Co. and others to Secretary, Finance Department, Government of India, (3 Apr. 1868).
125 J Strachey & R. Strachey, *op cit.* p. 247.
126 L. C. A. Progs (1872) vol. XI (new series), p. 263.
127 Home Progs. Separate Revenue 21st Oct. 1861, no. 2, Capt. F. Jones, Political Resident, Persian Gulf to Secretary, Government of Bombay (16th July, 1861).
128 Home Progs. Sep. Rev. 10th Feb 1862 no 2 Capt F Jones to Secretary, Government of Bombay, (9th December, 1961).
129 Fin. Progs. Sept. Rev. February 1868, nos 101-110 on the question of making the trade in Turkish and Persian Gulf opium a source of government revenue.
130 Cecil. Beadon's evidence before Sel. Comm of Parl, 1871. Q. 3344-51
131 Fin. Progs Sept Rev. Oct. 1871. no 41, Lt. Col. Lewis Pelly, Political Resident, Persian Gulf to Secretary, Government of Bombay (17 July 1871).
132 Fin. Progs July 1871. App Memorandum on opium cultivation in China, prepared in Fin. Department (23 Feb 1871).
133 Home Progs. Separate Revenue. 19 August 1861. no 21. Colonial Secretary, Hong Kong to Secretary, Government of India (17 July 1861), forwarding Memorandum by W.S.F Mayers, British Consul, Canton.

134 Home Progs. Sept. Rev. 21 Oct. 1861 no. 6. Colonial Secretary, Hong Kong to Secretary, Government of India (10 Sept. 1861). Report of Lt. Colonel Sarel.

135 Fin. Progs. July 1871. Memorandum dated 23rd Feb. 1871.

136 Home Sept Rev. 22 July 1863. Extracts from Foreign (Political) Progs. 30 June 1863 no 319. A. P. Phayre, Chief Commissioner of Dr. Burma, to Secretary, Foreign Department, Government of India, letters dated 10 Feb. 1863; 1 May 1863; 20 Nov. 1862; 12 Dec. 1862.

137 Mr. Ezra of Jardine Skinner & Co. Mr. Keswick of Jardine Matheson & Co., Apcar & Co., See Fin. Progs. July 1871. Memorandum dt. 23 Feb. 1871

138 Fin. Progs. July 1871. App. Memorandum of Finance Department 23 Feb. 1871.

139 This was the opinion of Sir R. Alcock. Evidence before Select Committee (1871) Q. 5696.

140 F. J. Halliday's evidence before Select Committee (1871) Q. 3660-61; 3677-79

141 Mayo to Argyll 17 Oct. 1869. (Mayo Papers, bundle 37, no. 285.).

142 *Friend of India* Editorial, 16 Dec. 1869 *ibid* 'Opium Revenue in Danger'. 30 Dec 1869. Mayo to Arbuthnot 23 Aug. 1869 (Mayo Papers, bundle 36, no. 210) citing opinion of Skinner of Messrs. Jardine, Skinner Co.

143 Mayo to R. Alcock 17 Oct. 1869 (Mayo Papers, bundle 37, no. 286).

144 Mayo to Argyll 23 Jan. 1870. (Mayo Papers, bundle 35, no. 28).

145 Mayo to Earl of Derby 30 Jan. 1870 (Mayo Papers, bundle 35, no. 40).

146 Fin. Progs July 1871. App. Memorandum of Finance Department 23 Feb. 1871

147 Fin. Progs. July 1871. Sep. Rev no. 21. Opium Examiner, Lower Provinces, to Jur. Secretary, Board of Revenue. 20 Feb. 1870. no. 25 Sheppard to Benares Opium Agent, 23 Sept. 1870.

148 Fin. Progs. October 1871. Sep Rev. no. 39. G. W. Caine, Consul at Honkow to Secretary Fin. Department, Government of India, 31 July 1871.

149 *ibid*. Szechuen, Yunnan and Keweichow produced in 1869-6000, 20000 and 15000 piculs respectively.

150 Fin Progs October 1871. Sep. Rev. no. 29 came at Honkow to Secretary, Finance Department, Government of India, 31 July, 1871.

151 *loc. cit.*

152 Mayo to Argyll 31 Jan. 1870. (Mayo Papers, bundle 35, no 41).

153 Mayo to B. Frore 3 June 1870. (Mayo Papers, 3 June 1870, no. 156)

154 Argyll to Mayo, 5 May 1870. (Mayo Papers, bundle 48, no. 14).

155 Argyll to Mayo, 1 July 1870. (Mayo Papers, bundle 48, no. 19).

156 Mayo to B. Frere, 3 June, 1870. (Mayo Papers, bundle 39, no. 156).

157 *loc. cit.*

158 L. C. Progs. (Old Series) Vol. VII, 1861, pp. 351-2, S. Laing's Financial Statement.

159 Fin. Progs. July 1869 S. R. no. 54. Government of India to Secretary of State, 22 July 1869.

160 Manchester Chamber of Commerce Progs 13 March 1862. Quoted Redford *op. cit.* p. 25. Fin. Progs. July 1869 S. R. no. 51, Secretary, Chamber of Commerce, Dundee to Under-Secretary of State for India 5 Mar 1869.

161 Piece goods exported from England (million yards)

	Total	India
1850	1,358	314 (23.1%)
1860	2,776	825 (29.7%)
1870	3,253	923 (28.4%)
1880	4,496	1,813 (40 3%)

(Proportion of col. 3 to col. 2 within brackets) *vide* Redford *op. cit.* p. 22. It is to be remembered, however, that these figures do not indicate value, but the volume. The valuable quality goods were exported to the European and American markets.

162 These figures include 'foreign' i e non-British goods as well, but in this period 'foreign' importation of piece goods was insignificant. On the export of British cotton textiles to colonies and dominions *vide* W. Schlote *British Overseas Trade 1700–1930* p. 97 & Table 25, pp 172-4. (Tr. by W. O Henderson & W. H Chaloner).

163 Redford *op. cit.* p. 26.

164 Fin. Progs. Aug. 1875 no. 19-27 K W. p. 20-21. Redford (*op. cit* p. 29). Quotes from the Manchester Chamber of Commerce proceedings : "now [1874] there were in and about Bombay upwards of twenty cotton mills". This appears to be incorrect The number of Mills in Bombay was not more than 14.

165 Rev. Progs. Dec 1, 1863 no 2

166 Rev. Progs. June 1864 no. 22 G M Batten, Secretary, Sudder Board of Revenue to Secretary, Government of NWP 6 Jan. 1864.

167 Rev. Progs. June 1864, no. 23. Same to same dt. 16 Mar. 1864.

168 *ibid* There was a temporary slackening of demand for English Cloth because of a variety of factors in 1862-64 : tightness of the internal money market, "diversion of available capital in the more profitable speculation of exporting cotton", and substitution of woollen and hempen cloths for cotton cloths. *lot. cit.* The observations of the NWP Board of Revenue are based on detailed reports from districts : Rev. Progs. Jan. 1864 no. 23 (Abstract of replies to the Sudder Board of Revenue circular order A, dt. 12 Jan) and Rev. Progs. Nov. 1864 no. 24, W. C. Plodwen, Secretary, Board of Revenue, NWP to Secretary, Government of NWP, 24 Oct. 1864.

169 Fin. Progs. Dec. 1864 Sep. Rev. Misc, no. 574. Secretary, Board of Revenue, Lower Provinces, to Junior Secretary, Government of Bengal, 28 Nov. 1864 *ibid.* no. 575. Secretary to Chief Commissioner, Oudh to the Secretary to Government of India, 22 Dec. 1864. Fin. Progs. Jan. 1865 Sep. Rev. Misc. no 53 Secretary to Chief Commissioner, Central Province to Secretary, Government of India, 21 Dec. 1864.

170 Fin Progs Jan 1865 Sep. Rev. (Misc.) no. 53 Secretary to Chief Commissioner Central Province to Secretary, Government of India, 21 Dec. 1864

171 L C. A Progs, 1863, Vol. II (New Series), p. 82.

172 A few entreprenurs like the Scotsmen running jute factories near Calcutta might have had different views

173 Home S. R 31 Mar. 1862, no. 7. W. S. Fitzwilliam, President Bengal Chamber of Commerce to Governor-General in Council, 27 Mar. 1862.

174 L. C Progs. (Old Series) Vol. VI, 1860, pp. 115-112.

175 Government of India to Secretary of State Fin. no. 66, 6 Apr. 1865 Secretary of State to Government of India Fin no. 114, 9 May 1865.

176 Secretary of State to Government of India Fin. no. 114, 9 May 1865 Secretary of State was relieved when Government of India itself repealed the export duties. Wood to Lawrence 16 Sept. 1865, Lawrence Papers, letter from Secretary of State, Vol. II, no. 50

177 Wood to Lawrence, 12 Aug. 1865 Lawrence Papers, Letters from Secretary of State, Vol. II no. 45. Wood wrote that he was not opposed to export duties in principle, but to take off the Income

Tax and to introduce exports duties to make up for the loss was a mistake.

178 Act X of 1860, Act XI & XXIII of 1862.

179 Home S. R. 18 Sept. 1862 Observation of Government of India in Financial Dept. 9 April 1861. While reviewing the tariff policy with regard to importation of machinery the Government of India considered whether machinery should be altogether exempt (according to the decision of 1845) or whether only some specified types should be exempted (as it was under Act VII of 1859). Act X of 1860 exempted all machines, and plate iron for hulls of steamers was exempted under a notification of July 1860. But the Spooner Tariff Committee (Home S. R Sept. 1862) no. 13 R. Spooner to Secretary, Government of India, 10 January 1861) suggested that exemption be restricted to specific types of machines. This suggestion was adopted (Home S. R April 1861, no. 14, Resolution by Government of India in Financial Dept. 9 April 1861) and Act XI of 1862 was amended (Home S. R. August 1862 no 26 Resolution by Government of India 18 August 1862) to exempt only machinery for agriculture, navigation, mining manufacture and railway purposes.

180 Government of India to Secretary of State, Fin. no. 73, 8 March 1867. In 1875 the Tariff Committee suggested that a duty should be levied on machinery. An interesting discussion ensued. The Tariff Committee argued that there was no reason to continue "the indulgence" originally given to encourage importation of Europen machines The contrary view was that "If there is one thing to which we must look more than to any other for the means of meeting the social difficulties likely to arise from over-population, it is the creation of a manufacturing class, and the relief of the land from the support of double the number of men it can properly maintain" (Fin. Progs. August 1875 no. 20 Seretary, Tariff Committee to Secretary, Government of India, 27 February 1875 and Ashley Eden's note, no date K. W. p. 9 Fin Progs August 1875, no. 19-27).

181 Fin. Progs 1867. Report of Tariff Committee, 7 Jan. 1867, Minute of dissent by J. A Crawford. Fin. Progs S. R. March 1866, no. 482. Secretary of State to Government of India, Fin S R. no 15. Sept. 1865.

182 S. B. Saul *Studies in British Overseas Trade 1870-1914* (*Liverpool*, 1960) p 192.

183 Fin. Progs. July 1869, S. R. no. 51. R. Sturrock, Secretary to Chamber of Commerce, Dundee, to Under-Secretary of State for India, 5 Mar. 1869.

184 Fin. Progs. July 1869 S. R. no. 54, Government of India to Secretary of State, 22 July 1869.

185 Fin. Progs. S. R. Jan. 1867, no. 11. Minute by Lt. Governor of Bengal 28 Nov. 1866 communicated to Government of India on 16 Jan 1867. Fin Progs S R. Mar. 1867 no 10 Junior Secretary, Government of Bengal to Financial Secretary, Government of India, 18 Feb 1867.

186 Fin. Progs S R. March 1867, no. 4, Government of India to Secretary of State, 21 Dec 1866.

187 Fin. Progs. S. R. Apr. 1867, no. 26, Merchants of British Burmah to Chief Commissioner, British Burmah, 20 Mar. 1867. *ibid.* no. 27. Merchants of Moulmein to the Commr Tennaserim Division, Fin. Progs S R Mar. 1871, no 25 Secretary, East India Association, Liverpool, to Secretary of State. 1 Feb. 1871.

188 Fin. Progs S. R. Mar 1871, no. 23. Secretary of State to Government of India, 10 Mar. 1870

189 Fin Progs Jan 1873 no. 4, Governor-General in Council's Order, 4 Jan. 1873.

190 S. B. Saul *op. cit.* pp. 197-198.

191 Sir Cecil Beadon's evidence before Sel. Comm on Indian Finance, PPHC 1871, Vol 8 cd. 363, 2874-2901.

192 *ibid.* 2904-04 Home Progs. 10 June 1863, Sep. Rev. no. 8 Secy. Govt of Bengal to Secy Brd of Rev 16 Apr 1863

193 PPHC. 1871, vol. 8, cd 363, 2926-28.

194 Home Progs 18 Mar 1861 Sep. Rev. no. 20, W Grey, Secy. Government of India to Secretary, Government of Bengal, 18 Mar. 1861.

195 PPHC. 1871, Vol 8, cd. 363, 2981-99

196 Government of India to Secretary of State Sep. Rev despatch no 20, 15 Aug 1859.

197 Home Progs 3 Feb. 1860 Sep. Rev. no 2, Secretary of State to Government of India. Sep Rev. despatch no 16, 19 Dec 1859.

198 Home S R. Progs 11 Apr 1862, no. 6 A Eden Secy Brd of Rev. to Secy Bengal Government, 27 Feb. 1862.

199 Government of India to Secretary of State Fin no 38, 7 Mar. 1862

200 PPHC 1871, Vol. 8, cd 353, 3170-75,

201 Evidence of W. G. Pedder before Sel. Comm on Indian Finance P.P.H C. 1871, Vol. 8, cd. 363, 4140-47 Home Progs. 20 Apr. 1861, Sep. Rev. no. 20, Secretary, Government of India, to Secretary, Government of Bombay, 20 Apr. 1861. Fin. Progs. Jan. 1865 Sep. Rev. no. 309 Secretary, Government of Bombay to Fin. Secretary, Government of India, 7 Jan. 1865. Fin. Progs. Oct. 1869. Sep. Rev. no. 36. *ibid.* no 38 Government of India to Secretary of State Fin. no. 249, 4 Oct. 1869.

202 Evidence of Sir T. Pycroft before Sel Comm. on Indian Finance, P.P H.C. 1871, Vol. 8, cd, 363, 3689-97.

203 Home Progs 23 Sept. 1869, Sep. Rev. no. 29. Extract from Progs. of Madras Board of Revenue, 27 March 1863. Fin. Progs. Oct. 1869 Sep. Rev. no. 33, Secretary, Government of Madras to Secretary, Government of India, 17 Sept 1859. Fin. Progs. Oct. 1869. Sep. Rev. no 38, Government of India to Secretary of State Fin. 249, 4 Oct. 1868.

204 Mayo to J. Strachey, 10 Jan. 1870, Mayo Papers, bundle 35, no. 10 Mayo contemplated putting political pressure on Jodhpur and thought of under-cutting and refusing to carry his salt by British Indian Railways. A O Hume played a prominent part in the arrangement of salt lakes lease. Fin. Progs. Jan 1870. Exp. no. 4, A. O. Hume, Commissioner of Inland Customs to Secretary, Government of India.

205 Vide W. G. Pedder's Report on Salt Dept Administration dt. 30 July 1870. Fin. Progs June 1871, Sep. Rev. no 80. Fin. Progs. Jan. 1866 no. 45, Rules for the collection of salt and sugar duties. J. and R. Strachey the *Finances & Public Works of India 1869-81* (London, 1881) p. 219.

206 Fin Progs. Oct. 1868. Sep. Rev. no 19. R. Temple's Minute 11 Aug. 1868. Mansfield, Durand, Maine and Strachey were opposed to Temple's proposals while Lawrence was in favour Government of India to Secretary of State Sep Rev. despatch no. 25, 29 Sept 1868. The fact that Temple's scheme involved the lowering of duties in Bengal and consequent loss of revenue was also a strong argument against the scheme, Fin. Progs. Oct. 1868 S. R. no 21, Minute by H M. Durand 17 Aug. 1868; *ibid* no. 27, Minute by H. S. Maine 19 Sept. 1868.

207 Fin Progs. Nov 1878. Sep. Rev. nos. 350-377 Part B; Fin. Progs. Fen. 1879 Expend. 292-3.

208 Vide J. Strachey to Mayo, 3 July 1869, Mayo Papers, bundle 36, no. 141 (enclosure).

209 Fin Progs. Oct. 1868 no 23. Minute by J. Strachey, 8 Sept. 1868 on duties on export of sugar from the North-West Provinces to Rajpootana or across customs line to British territory. Fin. Progs Mar. 1871. Sep. Rev. nos. 14-22 and Agriculture, Revenue and Commerce Dept Progs. Nov. 1871 no. 1-3 on duty on sugar in Punjab. Home Progs. 11 Oct. 1861. Sep. Rev. no. 41. C. Beadon's circular to all provincial governments 21 Mar. 1859. Fin Progs. Feb 1863 Accts. no. 2 Resolution by Government of India 3 Feb. 1863 deciding to abandon the plan of tobacco duty. Fin. Progs Feb. 1868. Sep. Rev. no. 26. Memorandum by J. Strachey against the imposition of tobacco tax 21 Oct. 1865

210 Secretary of State to Government of India, Fin. no. 2, 21 Jan. 1869.

211 Fin Progs. June 1871. Sep. Rev. no. 80. W. G. Pedder to Secretary, Bombay Government (Report on Salt Dept.) 30 July 1870

212 Fin. Progs. June 1861 Accts no. 61. From members of British India Association, Calcutta to Governor-General 5 June 1861.

213 Rev. Progs June 1867; no. 50, H W I Wood, Secretary, Bengal Chamber of Commerce to Secretary, Finance Dept. 31 May 1867.

214 Fin. Sep. Rev. Progs no 21, Government of India to Secretary of State 20 Apr. 1867.

215 R Temple to Mayo, 20 Oct. 1871 Mayo Papers, bundle 61 (no number).

216 Lord Canning of James Wilson (22nd Nov. 1859), Barrington II, pp. 206 J Wilson to Walter Bagehot (15th Nov 1859), Barrinton II, pp. 194-5.

217 J. Wilson *Financial Statement* (Calcutta 1860) p 15

218 *ibid.* p. 31.

219 Canning to J Wilson 31st Jan. 1860, Barrington *op. cit.* II, pp. 223-4.

220 Canning to J. Wilson 10th Feb. 1860, *ibid*, pp 225-7.

221 Secretary of State to Government of India, 3 Apr. 1860. Fin. no. 55.

222 Lord Canning to J. Wilson 18 Mar. 1860, Barrington *op. cit*, II, pp 274-5.

223 Lord Canning to J. Wilson, 13 Mar. 1860, Barrington, II, p 272. Canning to J Wilson, telegram dated 13 Mar. : 'The bearing of the Income Tax upon the Army is likely to become a serious question. Be careful how you commit the Government 'upon it', *ibid*, p 272.

224 Legislative Council Progs 14 Apr. 1860. Vol. VI, (old series)

225 J. Wilson, *Financial Statement* (Calcutta, 1860). p 20

226 *Petition against Income Tax of the Zamindars of Bengal, Bihar and Orissa to Parliament* (*Calcutta*, 1861). Secretary of State to Government of India 2 Aug. 1861, Fin. no. 121. Government of India to Secretary of State 6 June 1861, Fin. no 106.

227 Secretary of State to Government of India, 2 Aug. 1861, Fin no. 121

228 The first sentence of Regulation XIX of 1793 ran as follows: "By the ancient law of the country the ruling power is entitled to a certain proportion of the produce of every bigha of land, demandable in money or kind, according to local custom". There was a section (75th) in Regulation VIII of 1793 stipulating that assessment should be so regulated as to leave the proprietors a provision for themselves equal to about 10% of the amount of their contribution to the Government. These provisions and statements were interpreted to mean that right to revenue from land was inherent in the state; that is to say, land revenue was not a tax.

229 Home Revenue Proceedings 1860, July 24, no. 41 letter from Maharajah of Burdwan dated 3rd May, 1860. Rev. Progs. 1860, May 18, no 6 Resolution of Government of India thanking the Maharajah of Burdwan. Despatch from Secretary of State to Government of India July 26, 1860. Fin. no. 115 requesting Government of India to convey thanks to the Maharajah of Burdwan.

230 Wilson was too optimistic and underestimated resistance Wilson to W. Bagehot 20 Feb. 1860, Barrington, II, pp 232-33.

231 Lord Canning to J. Wilson 10 Feb. 1860, Barrington, II, pp. 225-27

232 Home Revenue Proceedings Aug 10, 1860, no 9.

233 Charles Wood to James Wilson 26 Mar. 1860, Barrington, II, p. 238.

234 James Wilson to Walter Bagehot 15 Nov. 1859, *ibid.*, II, pp. 194-5.

235 Home Revenue Proceedings Sept 23, 1860, no 39 Resolution of Government of India appointing the Committee. Rev Progs. Oct. 20, 1860, no. 35. Report of the Committee.

236 Home Revenue Proceedings Sep. 6, 1860, no 15 : (Persian Dept) Petition from inhabitants of Neriad Zillah Kaira to the Members of Legislative Council of India, dated 15th June, 1860.

[237] Home Rev Progs. Oct. 20, 1860, no 42. The Secretary to Government of Bengal to Government of India, 2nd Oct. 1860.

[238] Home Rev. Progs. 20 Oct. 1860, no. 44.

[239] Home Rev. Progs. 6 Sept. 1860, no. 15.

[240] Robert Knight F. S. S., *Fiscal Science in India as illustrated by the Income Tax* (Bombay, 1870).

[241] Fin Progs 9 May 1863, Accounts no 265.

[242] S. Laing *Financial Statement* (Calcutta, 1861).

[243] Fin Progs. 1864, July. Accounts no. 164.

[244] *Hindoo Patriot,* 20 July 1864.

[245] Minute by Governor General (n.d.) Fin Progs. May 1864, Accounts no 56.

[246] Minute by B. Frere, December 8, 1864, Fin. Progs. December, 1864, Accounts no. 4.

[247] Assessment was a costly process ; vide infra p. 212.

[248] The assessments made in 1860 after five years had become obsolete, particularly due to the Cotton Boom 1861-64.

[249] Fin Progs 1865 April, Accounts no. 67.

[250] Mayo to Napier 16 Jan. 1870, Mayo Papers, bundle 39, no. 234.

[251] Mayo to Argyll, 5 July 1870, Mayo Papers, bundle 39, no. 453.

[252] Financial Statement. L.C.A. Progs 1865, Vol. IV, (new series) p 169. Charles Wood was opposed to the repeal of the Income Tax, but his telegram was not received in Calcutta in time. C. Wood to J. Lawrence 10 Apr. 1865. Letters from Secretary of State, Vol. II, no. 27A.

[253] L. C A Progs. vol. VIII (new series) p. 105.

[254] Home Rev. Progs Apr. 1867, no. 20. Petition from Calcutta Trades Association to the Secretary of State 22 Apr. 1867.

[255] Home Rev. Progs Apr. 1867, no 19. Memorial of the Inhabitants of Calcutta to Secretary of State (n d.).

[256] Home Rev. Progs. Apr. 1867 no. 7, Secretary, Bengal Chamber of Commerce to Secretary, Home Department 22 Mar. 1867

CHAPTER FIVE

THE MASQUE OF PLENTY

"WHAT *is the state of the Nation? What is*
its occupation?
Hi! Get along, get along—
lend us the information . . . "
—Rudyard Kipling
"The Masque of Plenty"
Departmental Ditties and Barrackroom
Ballads

It is dangerously easy to select isolated fragments from utterances or writings of public men and bits and pieces from the Press and to present a pattern of thinking as "public opinion" or "nationalist ideas". Such an exercise is dangerous in that we may go wrong in attributing *a false coherence* to a medley of ideas and opinions. That there was, in the period under review, no coherent set of ideas which might be branded as nationalist is a plausible hypothesis. And yet we cannot ignore the emerging pattern in the ideas and opinions finding expression in the 'native' or Indian-owned newspapers, in the discussions and meetings organised by public bodies such as the British Indian Association or the East India Association, in the memorials and petitions submitted from time to time by the subjects to the rulers, and in the writings of public

spokesmen like Dadabhai Naoroji, Kristodas Pal, Hurrish Mukherjee and others. Informed public opinion was in a germinal stage. With the exception of a few journals of Bengal and Bombay the native Press could not offer intelligent and informed criticism. This was specially true of a subject so technical and abstruse as Public Finance. Nevertheless there were certain dominant trends of opinion which influenced the newspapers in various degrees and certain ideas on financial and economic policy had begun to take shape—ideas which bear a family resemblance to those of the Indian National Congress in the early years of its existence.

Contemporary discussions on financial questions in the period under review eddied around a few crucial issues. First, the question of burden of taxation, and the closely related questions of standard of living, taxable capacity, the incidence of taxation etc. Secondly, there were the broader political questions epitomised in the slogan linking 'Taxation with Representation.'

Although we come across in contemporary political and economic literature many generalities concerning taxable capacity of the people, the standard of living of the masses, the heaviness of the burden of taxes etc. few attempts were made to establish statistically the truth of these generalities. In the absence of any accurate estimate of the national income the assessment of taxable capacity (on the basis of comparison between average income per head and average burden of taxation) were bound to be conjectural. The only official statement regarding average national income in this period came from the Under-Secretary of State for India, Mr. Grant Duff. In course of his Financial Statement in the House of Commons on the 24th February, 1871, he said that "the income of British India has been guessed at £ 300,000,000 per annum;" the average annual income was £ 2 (=Rs. 20) per capita.[1] About two years later Dadabhai Naoroji made

an estimate of Indian national income on the basis of statistics of 1867-68.[2] Naoroji "calculated the annual agricultural products of each province and deduced their value on the basis of current prices; he added to this a very conjectural estimate of non-agricultural income—allowing for a large margin of error to guard against underestimation. He refused to assign any value to services on the ground that they were not genuine incomes but appropriation of income already created." He concluded that total national income of British India was 3.4 billion rupees for a population of 170 million. That is to say the average annual income per head was Rs. 20. Although his method was not sophisticated and inspite of the conceptual peculiarity of his definition of national income (e.g. exclusion of services) Naoroji's estimate is the most reliable one we have.[3] The Editor of the *Indian Economist*, Robert Knight, asserted in 1871 that the average national income was nearly £ 6 (=Rs. 60) per annum.[4] But he does not indicate how he arrived at this figure. It is equally uncertain what was the basis of the assertion of the wellknown British radical politician, Hyndman, who put the annual income of a family of five at £ 8 in 1886.[5]

The calculations of the average burden of taxation per head of population vary widely. According to the *Times of India* taxes in 1863 amounted to about 10 or 12 annas per head annually.[6] The *Friend of India* calculated in 1861 the average tax burden per head to be 5s. 3d. (=Rs. 2 and 10 annas) for all India; the proportion varied from province to province, ranging from 3s. 6d. (=R. 1 and 12 annas) in Bengal to 9s. (=Rs. 4-8 as.) in Pegu.[7] In 1868 the same journal estimated the tax burden per head at 6s. (=Rs. 3) annually.[8] The *Indian Economist* of Bombay conjectured that the tax burden was merely 1s. 10d. (=15 annas) per head in 1871.[9] About a decade later Hyndman made an estimate—equally conjectural—that an average Indian family of five

persons contributed, in tax and revenue, towards Government expenditure approximately £ 2 (=Rs. 20).[10] These estimates vary so much—indeed, not one of them seems to be dependable—because of conceptual differences. Some would regard Land Revenue as rent and, therefore, a non-tax source of Government income. Some, on the other hand, defined taxation as any deduction from annual national income for the purposes of Government; by this definition Land Revenue would be regarded as a tax. Thus the differences in defining the nature of Land Revenue disrupted these calculations, for the exclusion (or inclusion) of that item from estimate of tax burden would reduce (or inflate) the estimated burden enormously.

In the absence of any reliable estimate of average burden of taxation in relation to average national income contemporary commentators had to fall back upon general evidence regarding standard of living, economic condition of the masses and evidence as to how the different classes were affected by the fiscal burden. The official view was that the country was going through a period of rapid economic development and that the state's share of the national income would be automatically growing. In their despatch to the Secretary of State in 1860 the Government of India asserted that the rapid growth of internal and external trade, extensive investment of capital, both European and native, in public companies, the increased quantity and value of product of the soil, the rise in the rate of wages etc. indicated "an unprecedented state of prosperity."[11] But the chief beneficiaries from this new prosperity under British protection were not bearing their share of the tax burden. "All classes have no doubt been benefited, and amongst the rest, the agricultural classes to a great extent—but beyond any comparison the chief benefit has been conferred upon the capitalist and trading classes. And if this be so, what an anomaly, not to say injustice, pervades our system,

Not only do these classes contribute little to the state for all the advantages which Government at a great cost has thus bestowed upon them, but no attempt has been made to bring them under any system under which they would contribute their fair share of the cost of these advantages." It was, the Government felt, necessary to have a fiscal system which would "throw the burdens of the state more equally over the whole [society] and to secure a revenue of a character which would grow with the wealth and prosperity of the country."[12] This was written—James Wilson drafted the despatch in his bold hand—in 1860. In 1869 the Government of India again expressed identical views. "The splendid revenue of the Empire is contributed by a population which, compared with that of other countries, is lightly taxed . . . The enriching and civilising effects of the great Railway and Irrigation Works which have, within the last twenty years, been constructed, are beginning to be felt throughout the length and breadth of the land . . . The steady rise which has taken place in the value of labour must, ere long, materially increase the wealth and contentment of people . . ."[13] These pronouncements bring out clearly some points made times without number in various 'Financial Statements' and 'Reports on Moral and Material Progress' viz. (a) that the national wealth of India was growing at a rapid rate in the decade 1860-70, and that such growth was possible only under Pax Britannica ; (b) India was relatively lightly taxed ; in particular, those who had benefited from growth of trade and commerce were shirking their share of the burden of taxes.

The English Press, by and large, accepted this official view of the situation. The *Friend of India* estimated the tax to be very light—it was said to be the lightest in the world.[14] But, the *Friend of India* pointed out, although the average burden was small, the burden was irksome for one class of people. "Instead of the propertied classes bearing the burden of the

Empire it falls almost exclusively on the workers." The latter paid the land tax, the abkaree, the *mohturpha*, and nine-tenths of the salt tax while the propertied classes were taxed through the customs duties, judicial fees, stamp duties etc. The propertied and trading classes were bearing a small share of the burden.[15] Indeed, the *Friend of India* reconciled itself to the unpopular income tax because it promised to shift the burden of taxation from "the industrious, struggling middle class" and the poor, "to the shroffs, the mahajans, the banians who were virtually exempt or very lightly taxed compared to their ability to pay."[16] The latter class "owes its wealth and numbers to us" but they are let off lightly in the taxation system, while "we all live comparatively untaxed at the cost of the ryots, who feel the excise, customs and salt duties far more heavy than we all do."[17] *The Times of India* thought that though there had been a "gross increase of Indian Wealth" the condition of *all* classes of people had not improved.[18] Rise in the price of agricultural products had benefited landowners, but not labourers and wages had not increased in proportion to prices. Thus "the landless class of the Indian population as a class become more and more wretched."[19] While the *Friend of India* asserted that the agricultural sector was comparatively heavily taxed compared to Industry and Commerce,[20] the *Times of India* maintained that even the agricultural income was not really heavily taxed. Land Revenue, the Bombay daily contended, was not a tax and therefore real taxes amounted to a very small sum, about 10 or 12 annas per head per annum.[21] *The Madras Times* was in agreement with the Calcutta journal : the land tax, salt duty, abkaree (tax on luxury, but on luxury of the very poor), stamp and customs duties—these were paid by the poor, directly or indirectly, while the wealthy native trading and capitalist classes enjoyed "an unfair immunity from taxation."[22] Thus the Anglo-Indian papers were almost unanimous in asserting that average taxation per head was

light; there was a large measure of agreement on the problem pointed out by James Wilson that the wealthy natives other than the landed classes were not bearing their share of tax burden; finally, there was a vague apprehension that the poorer classes were feeling the burden of taxes somewhat irksome. Nothing definite was known as to the real condition of the latter class. It was apprehended that famine was occasioned by the pressure of taxation. It had been asserted by a Civilian before the Select Committee of House of Commons that the pressure of taxation caused the Orissa famine. "The reserves of food had been paid in order to provide for the payment of taxation," and pressure of taxation led to export of all food crops and thus to famine.[23] Hyndman expressed similar views a few years later. "The famines which have been devastating India are in the main financial famines. Men and women cannot get food because they have not been able to save the money" due to the pressure of taxation.[24] But these were radical views which the Anglo-Indian papers did not publish except to refute.

The Indian or native newspapers did not attempt anything like a statistical estimate of the fiscal burden. They said that the burden of taxes had become "insupportable"[25]; that the variety and weight of taxes showed that the British solicitude for subject races was hypocritical[26]; that taxation had reached its legitimate limit[27]; that taxes "enter as a needle, appear as a ploughshare"[28]; that the people under British rule were more heavily taxed than those under Native Rajas[29]; that the British were iniquitously increasing the tax burden in proportion as they felt strong[30]—and so forth. But we have no quantitative statement at all. In general terms the British Indian Association deplored the appropriation by the Government of a very large portion of national income: "The immense increase of revenue which has taken place within the last ten years . . implies a corresponding addition to the burdens of the people . . This

addition, whether arising from the natural elasticity of certain sources of Indian revenue, or from the imposition of new taxes, direct or indirect, has been *in effect a deduction to that extent from the gross profits of the nation,* and consequently from its means of maintenance or comfort."[31]

In 1880 Dadabhai Naoroji made the same point in a memorandum to the Finance Commission.[32] He estimated that the total income of India was roughly £ 340 million, while the revenue raised by the Government amounted to £ 65 million.[33] "England raises for the purposes of government only 8½ per cent; while . . . nearly 22 per cent are raised in India for the same purpose; and yet people coolly and cruelly write that India is lightly taxed."[34] Naoroji admitted that these estimates were not absolutely reliable but he had no doubt that the proportion of national wealth taken by the Government as revenue was larger in India than in England.[35] To Naoroji the core of the problem seemed to be India's state of political dependence and the absence of Indian representation in the decision-making bodies.

"After battles many and obstinately fought, the principle that taxation without representation degenerates into tyranny, has gained a firmness in English politics which is the best reliable safeguard against the excesses of power . . In India the wildest schemes of taxation are broached and carried merely by the strength of the official sentiment on them, either in ignorance or disregard of the opinion of the people."[36] This editorial comment in the *Hindoo Patriot* of 5 September 1860 very characteristically reflects both the admiration for English representative institutions and the impatient anger at the absence of such institutions in India. In the early 1860's, however, no definite plan for representing Indian opinion (apart from the nomination of some Chiefs and magnates as "additional members" in the Legislative Council) was put forward. The British Indian Association confined itself to generalities—that

the Government failed to consult popular opinion, that information on financial matters was incompletely and tardily supplied etc.[37] In 1868 the British Indian Association met in Calcutta to place before the Secretary of State a definite scheme in the form of a memorial. In the memorial the Association deplores that "practically the public in India have no voice in the management of the finances or even sufficient opportunities of discussing financial measures until when too late."[38] Measures of taxation were passed almost immediately after the budget was presented so that there was no scope for expression of public opinion. "The tax payers of India would have, however, some satisfaction if they had any voice in the disposal of the ways and means of the State. In all British colonies taxation and representation go hand in hand, but considering the peculiar relations of England with India the Memorialists believe that political reasons, if not other circumstances, require that the Governor-General in Council shall have the fullest authority in matters of finance. But it cannot be inconsistant with that policy . . . to take the public into confidence and consult their views and wishes in regulating the finances as well as in imposing new taxes."[39] The Memorial proposed "a consultative Council sufficiently numerous, and composed of Native and European gentlemen, drawn from all parts of the Empire . . . " The proposed Council would be empowered to call for information and papers on financial matters and to review the budget in detail before its adoption by the Government. But it would be simply deliberative; it might not be given the right to vote; all its members would be nominated by the Government. This proposal was not acceptable to the Government. In the opinion of the Government such a Council could not "properly represent wishes of the people."[40] The *Hindoo Patriot* commented: "The Government, we feel persuaded, cannot long stem back the tide which is gaining upon it."[41] Some other native papers echoed the demand for repre-

sentation of the tax-payer. *Som Prakash* in Bengal and *Jam-e-Jamsed* in Bombay took up the cry.[42] The British Indian Association continued to memorialise the Government. Publication of details of Home Charges (so that tax payers may make "their views and wishes known") was demanded in a memorial to the Secretary of State in 1869.[43] In 1871 it was demanded that upon decentralzation of finances Indians should be allowed to participate in local administration.[44] On this issue Lord Mayo privately expressed strikingly similar views. "People say the process will be long—it may be so—I believe that it will be shorter than many imagine but be that as it may it is time to begin, and to commence a system of administration which does open the door to the association with ourselves to a greater extent than heretofore of the natives of India in the conduct of local affairs."[45] But the educated and politically conscious class was dissatisfied with the slow pace of progress and the inadequancy of the constitutional forms with regard to financial control. "It is all very well to imitate English constitutional forms, to submit the budget to the Legislative Council, to get up a sham debate" wrote the *Hindoo Patriot*, "but it is all show and sound signifying nothing . . . Allied Princes and Chiefs, though useful in their own way, no more represent Her Majesty's Indian subjects than would Louis Napoleon or Victor Emanuel represent the Commons of England in the British Parliament."[46] The Government must be prepared to share the responsibility of governing with "the natural leaders of the people."[47] It was conceded that "the freedom of person, thought and speech" was gained under British rule. "But who can deny . . . that Legislative Council is a farce, that the additional members, official and unofficial, are cyphers, that though the law provides for native members in the Council, the educated classes are as a rule ignored in it . . ."[48]

It would be wrong to suppose that the Government was

entirely oblivious of the growing strength of public opinion. Although the various requests of the British Indian Association (to arrange for representation of a wider segment of Indian society than was possible under the existing system of nomination of some native additional members to the Legislative Council) were turned down time and again by the Government, the intelligent bureaucrat could not ignore public opinion altogether. Bartle Frere for instance was quite alive to the necessity of studying the trend of opinion. Frere, at a meeting (9 June 1871) of the East India Association said : people sometimes ignore, or even deny the existence of public opinion in India, but this was not the feeling that actuated the old Indians of the former days, like Malcolm, Munro, Metcalf and Elphinstone who "felt the pulse of the people."[49] The financial difficulty was an additional reason why the Government should watch the state of feeling of the natives. Lord Mayo also noticed that "the people of India are becoming quite alive to different items of expenditure."[50] Another observer wrote : "The increasing wealth and education of the people have begotten a spirit of independence and intelligence which cannot prudently be ignored. The measures of Government are now keenly scrutinized and intelligently discussed by increasing number of our subjects . . . The people are rapidly ceasing to be an ignorant unreasoning mass, implicitly confiding in the wisdom of their rulers."[51]

If the Government were aware of the growth of public opinion' in India why did they not concede the demands made by the British Indian Association and others ? First, because 'public opinion' in the English sense of the term was a new phenomenon in India ; it was still at a germinal stage and there was it was claimed, no informed criticism of financial and economic policies. Secondly, it was felt that whatever was written in the newspapers did not necessarily truly reflect opinion of the people, As Sir Bartle Frere put it, the published

opinion was not always the public opinion. The Press, English and Native, reflected the opinion of a very small section of the people.[52] Mayo observed that the Press reflected the opinion of the few vocal individuals and there was no means of knowing the opinion of the 'silent many'. Mayo was contemptuous of the English owned papers which upheld the interests of the 'non-official Europeans' (i.e. Europeans in trade and industry who "came here to get as much money out of the Blacks as they can") and for the Native papers run by baboos who looked after their own interests rather than those of the masses.[53] Governor-General Lawrence also felt that there was a gulf of difference between the "classes whose voices are heard" and the ordinary people who just "eke out a subsistence."[54] In one of their despatches to the Secretary of State the Government of India made a distinction between the opinion of the 'classes' and the 'masses': public opinion "should not only be opinion of the classes which assemble in public meetings, but the opinion of millions of Her Majesty's subjects who contribute to the Exchequer . . . ."[55] When in 1868 the British Indian Association proposed the formation of a Consultative Council "composed of competent Native and European gentlemen", the Government of India observed that such a body would only "*represent a few classes whose obvious interest it would be to avoid taxing themselves.*"[56] The British Indian Association was, in the forceful words of a visiting English journalist, generally regarded as "a system of organised selfishness:"[57] It is undoubtedly true that the British Indian Association had as distinct a class character as the European Chambers of Commerce, being essentially a landlords' association. It is also true that the Association and most of the native newspapers were more keenly alive to the interests of the zamindars, the prosperous professional classes, the office employees etc. than the interests of the common people. This was reflected, for instance, in their advocacy of

higher rates of salt duty and other indirect taxes which fell on the masses so that the wealthier classes might evade income tax, license tax on professions, and other direct taxes which would affect the propertied and professional classes. Yet it was becoming evidently impolitic to deny representation to the only politically conscious and vocal class in India.

What the financial policies would have been if this class had a commanding influence over decision-making can only be a subject of speculation; at this point, it would be more useful to survey the trend of "public opinion" in India on certain policy issues.

The native as well as the Anglo-Indian newspapers, with surprising unanimity, opposed direct taxation in all forms. On the other hand they recommended addition to the salt duties. Of all indirect taxes the salt duty affected the poorest classes: the direct taxes touched only the middle and high income groups. The controversy on James Wilson's Income Tax Act which we have discussed earlier, brought to the surface all the arguments which were used time and again to attack or to defend direct taxation. The reaction of the British Indian Association was typical of the propertied and "enlightened" class: salt duty was the "least objectionable" form of taxation and "whatever may be the objections to such a mode of taxation, its worst evils will be blessings compared to the oppression, the danger, and the demoralising effects of the Income Tax or of any such system of direct taxation,"[57a] Anglo-Indian journals and the Chambers of Commerce consistently pursued this line of argument in the 'sixties: the public would "cheerfully" bear indirect taxes (*Madras Examiner*); while the income tax is "excessively distasteful" the salt duty forms "a very small deduction from the annual earnings of the agricultural and operative classes" (Bengal Chamber of Commerce); the income tax united "all classes and castes" in British India who shared a sense of common wrong (*Pioneer*); the tax

burden on "the poorer classes" in the shape of land tax and salt duty was negligible (*Times of India*) ; the more enterprising classes were deprived of the "fruits of their industry" through the license duty and income tax (Calcutta Trades Association), the Income Tax produced "the smallest amount of revenue with the greatest amount of injustice" to a loyal class (*Englishman*).[58] The motivations behind the specious arguments of this sort were obvious. Mayo wrote with fine contempt of the "ignorance, selfishness, and malevolence" of the "European officials who look on India as a milch cow for themselves", English merchants "who did not pretend to have any other object than the rapid acquirement of as much money as will enable them to live at home in idleness", and the "native of substance whose only idea of taxation is to ravish the poor".[59] Canning seized the opportunity to expose the self-interested nature of the wealthy native and Anglo-Indian classes' concerted attack on direct taxation : "to substitute salt tax for the income tax" he wrote to Raja Radhakanta Deb of the British Indian Association, "would be to relieve the rich at the expense of the poor".[60] With the exception of the *Indian Economist* of Bombay and the *Friend of India* of Serampore, the Press never conceded the necessity for direct taxation to relieve the lower income groups of the burden of indirect taxes in various forms.[61] The reaction to direct taxation was so vehement because, for the first time, the government attempted in the 'sixties to tax "the screaming few instead of the silent masses".[62]

The interests of classes which united against the direct taxes were certainly not homogeneous. While united in condemning direct taxation each group defended its own interests. Progressive taxation was recommended by the low-income group : the clerks of public and commercial offices memorialised the Government on the need for a graduated scale in place of a uniform rate.[63] The salaried classes, subjected to more

rigorous assessment, enviously eyed the prosperity of "the banyan, the sowcar, and the Parsee millionaire" who evaded taxes while enjoying the benefits of British rule.[64] The professional and entrepreneurial classes resented the inequity of tax which failed to differentiate between their own incomes which represent "the fruits of their industry" and the incomes of rentiers, fundholders, landlords and the property owning idle rich.[65] Merchants were indignant that "property lying idle, and contributing to the good of no one but the owner is exempted : while as soon as it is placed in productive channels contributing to the wealth and prosperity of the country as well as the owner it is subjected to taxation".[66] Anglo-Indian opinion was in favour of a succession duty in place of or in addition to the income tax : a succession duty would fall mainly upon Indians holding real property and not on Englishmen who would return home having made their fortune.[67] The independent lines of argument pursued by each of these interest-groups converged at one point : direct taxes on their income was, as the members of the British Indian Association put it, "inexpedient and unethical",

It is curious to notice how often questions of ethics and economics intermingled and became inseparable in public discussions in this period. A good instance was the opium question. There was a considerable body of opinion in England as well as India which was against the Opium traffic on moral and other grounds. Mr. Bright said on one occasion : "a more dreadful traffic, or one more hideous in its results, never existed, except perhaps the transport of Africans from their own country to the continent of America".[68] Year after year several members of Parliament—Col. Sykes, Kinnaird, R. N. Fowler, Sir W. Lawson, Stephen Cave, M. Fowler *et al.*—drew attention to the morally reprehensible nature of opium traffic, especially in view of its direct connection with the Government.[69] Among the tracts on Indian sub-

jects two might be noticed here. One was by Donald Matheson, entitled *What is Opium Trade*. It asserted that "the opium scourge has proved one of the greatest obstacles to the reception of Christinanity by the Chinese".[70] It was sometimes argued that the opium monopoly was no worse than the English tax on spirits. "But the parallel is not complete", writes Matheson. "The revenue from spirits is the very best that could be raised, because it enriches the Government while it restrains the use of a dangerous article, by enhancing its cost. The revenue from opium is obtained by the Government first by producing this destructive article, and then promoting its consumption in spite of the prohibitions and remonstrance of a weak and heathen nation, whose moral feelings are, nevertheless, outraged by our act."[71] In the pamphlet, *The Government of the East India Co. and its monopolies, or the Young India Party and Free Trade* opium monopoly was denounced as an anachronistic relic of the past. The author, Malcolm Lewin, contended that all monopolies were bad and the opium monopoly was the worst of all.[72] In the 1870's opinion against government dealing in opium became very strong and in 1874 the movement for suppression of the opium trade was fully organised. In the autumn of that year the Anti-Opium Society was founded.[73]

In India a section of Anglo-Indian opinion was against government monopoly in opium. Such a monopoly, the *Friend of India* said, was as undignified as running gin shops owned by Her Majesty.[74] The last of the monopolies, the opium monopoly, was "the opprobrium of our administration."[75] It was alleged, not entirely without reason, that the Government was not merely manufacturing opium but speculating in opium.[76] The manopoly was an unpleasant reminder of "the commercial corruption of the olden days."[77] Economic arguments were advanced in addition to moral ones. The usual 'free trade' arguments were put forward and it was suggested

that an excise system in place of the monopoly would be equally profitable.[78] The Bengal monopoly system was an artificial one with its own insuperable problems. "Under the direct manufacture system there is no such natural connection between demand and supply as the laws of society require, and, when not, interfered with, secure...."[79] But the core of the case against government interference in opium trade was not the economic but the moral argument. And most of the Anglo-Indian journals as well as the Indian-owned ones were indifferent to the moral aspect of the question; it must not be forgotten that the alleged deleterious effects of opium-smoking were noticed more in China than in India. "The Government of India simply retains the monopoly in its hands," said the *Indian Economist*, "because no one is able to suggest any scheme for its abandonment, that any statesman can look at twice....it retains the monopoly in its hands from a pure and honest desire to prevent the practice of opium eating spreading throughout the country, while securing at the same time the highest possible revenue from the lowest possible production".[80] Dadabhai Naoroji frankly told the Society for the Suppression of Opium Trade that "you have not the complete sympathy of the natives of India in this matter"; he knew that many Indian newspapers expressed the opinion that the opium revenue could not be given up.[81] Naoroji personally regarded the opium trade morally repugnant and in 1855 when he joined a Bombay mercantile firm it was one of his express conditions that he should have nothing to do with opium.[82] But many Indians did not share this view.[83] With some rare exceptions, the Indian owned papers were silent on the moral aspect of the opium question.[84]

The authorities were not unaware of the agitation against opium trade. Lord Stanley stated the official attitude toward the argument that cultivation and sale of that narcotic drug was immoral; "I regard this argument as unsound and based

on a false theory as to what the duty of a Government is...." [85] Some efforts were made to counter-act the propaganda of anti-opium agitators. *The Opium Revenue of India,* an anonymous tract, presented the case for retention of opium monopoly on economic grounds; it claimed that deleterious effects of opium smoking were grossly exaggerated.[86] Another pamphleteer defended opium revenue on the ground that it relieved the Indians of the tax burden.[87] A third writer asked, "What should India do without her opium revenue, were those watery evangelists to have their way"?[88] S. Laing argued that opium revenue was neither better nor very much worse than income from taxing gin and spirits in England.[89] Charles Trevelyan used the very same argument. "The moral justification of the opium revenue follows the parallel of the Home Excise upon spirits. Is it best to check the consumption of Opium by placing the highest possible Tax upon it; or, by leaving the cultivation and export entirely free, to give to the Chinese the means of unlimited indulgence in their favourite drug"?[90] It was merely a rhetorical question, the answer obviously being, in Travelyan's opinion, that the first alternative was much the better one in every respect.[91] It would be impossible, even supposing it were desirable, to suppress entirely the cultivation and consumption of Opium. Sir John Strachey and Col. Richard Strachey averred that taking opium was not only an ingrained habit of certain people, but it might also be beneficial if taken moderately as it was the practice of Sikhs and Rajputs (who took it in the form of decoction of *post* or poppy heads).[92] They also pointed out that cessation of opium export from India would not necessarily benefit the Chinese since India was not the only source of supply; actually the common people in the interior of China depended on home grown opium, while only the well to do people of the coastal provinces could afford superior Indian Opium.[93] Moreover, the interests of India had to be considered. India possessed the

rare fortune of obtaining from one of her products a large revenue, without the imposition of taxes on her own people, and Strachey saw no reason "to sacrific the mainfest and vital interests of those people, to whose good we are pledged by the highest duties, in hope of preventing others, against their will".[94] Even those who admitted that the opium trade was morally wrong could not see their way to give up such a lucrative and indispensable revenue source. Mayo—who was fiercely contemptuous of "the philanthropists' twaddle" on the opium question[95]—admitted that the "opium position" was "one of the deepest blots on our escutcheon".[96] But would the conversion of the monopoly system in Bengal into an excise system "be anything but a salve to the conscience of some of our weak kneed brethren"[97] "But to think that we can escape responsibility by levying revenue by Passes and Excise Tax instead of by direct purchase and sale is to my mind a delusion. The old landlords of the Cornish and Irish coasts rarely smuggled themselves, but used to encourage it, and levy heavy toll on the goods smuggled by their tenants, so we propose to decline to commit ourselves, but to levy a heavy tax and make a great profit by allowing and encouraging our subjects to do it. It wont hold water for a minute, and I cannot think it desirable to sacrifice a large revenue—which we should do if we adopted the western (Bombay) system to Bengal —merely for the fine ethical distinction for the perception of which is required the possession of minds more subtle than those which fall to the lot of ordinary mortals among whom I venture humbly to class myself".[98]

It would be absurd to characterise, as anti-opium agitators were wont to do, the opium policy of the government as a diabolic one. It was a policy indefensible from the evangelists' point of view; but the pragmatic administrators of India were not swayed by mere "sentimentalism".[99] The following extract sums up the pragmatic attitude of the official

mind to the question. "This country has natural monopoly of good and cheap opium. If anyone seriously contends that this natural advantage which providence has granted to India should be artificially counteracted by the prohibition of poppy cultivation in this country, out of regard for the Chinese, such an argument may safely be left to its fate .... It is the policy of the Indian Government to let things run as nearly as possible in their natural course, whilst it gives the public exchequer the benefit of the natural monopoly in question, thereby avoiding the necessity of some equivalent taxation in some form more inconvenient".[100]

The clash between this view, that the business of taxes is to raise revenue, and the view that taxes might be used as a moral discipline to discourage consumptions socially and ethically undesirable, is also noticeable in discussions concerning excise.

The excise duty was collected (a) from drugs such as *ganja* (hemp) and opium, (b) duty on spirits manufactured in India by European method, (c) duty on 'country spirits'. Opium agencies of Malwa and Bengal, as we have described elsewhere, controlled the opium traffic. In Bengal opium was a Government monopoly and in Malwa a pass duty was levied on the transit of opium through Bombay. Just as in the case of salt monopoly of Bengal the excise revenue on opium consumed in India was really a monopolist's profit : the opium was sold by the Government to the public through licensed vendors and license fee added to excise revenue. The sale of *ganja* was subject to a license duty and for its cultivations also a license was required. The prohibition of cultivation and the system of license helped to check the spread of the habit of indulging in these drugs. In 1871 the Agriculture, Revenue and Commerce Department conducted a survey into the deleterious effects of the drugs and it was found that they produced dangerous effects including insanity.[101] The spirits

produced in India by European methods were subject to a duty equal to the customs duty on similar spirits imported from abroad.

The duty on country spirits was collected under two systems. One was known as the outstill system. Under this system there was a fixed daily tax on stills and the retail vendor of liquor paid a license fee which was fixed without reference to the quantity he might sell in that period.[102] The vendor bought the monopoly right at an auction held by the district authorities. Virtually it was a system of farming out the right to sell liquor. The farmer could set up shops only in the town for which he received the farm; this, it was believed, would prevent the proliferation of liquor shops and taverns. The defect of the system was that it encouraged the licensee to sell as much spirits as possible: since the license fee was fixed in advance and had no relation with the quantity of spirits sold, the vendor would naturally try to make as much profit as possible by selling as much as possible. The Bengal Government observed with alarm the spread of the habit of drinking for which were responsible the dealers ("whose profits depend entirely upon the extent to which they can increase the consumption of spirits").[103] This was, the Bengal Government observed, "one of the greatest reproaches to our administration in this country".[104] The other system of excise was known as the *Sudder* (i.e. headquarters or central) Distillery system.[105] The chief feature of this system was that the amount of duty depended on the actual quantity of spirits which passed into consumption.[106] The system was known as Sudder Distillery system because a central distillery was maintained by the Government where spirits were manufactured by private individuals who paid a duty on the amount distilled and passed on to vendors who paid a license fee.[107] The Government of India was anxious to "obviate the charge brought against Abkarry Administration

of endeavouring to increase the revenue rather by forcing the consumption of liquor" under the outstill system.[108] But considerable expenditure was necessary to introduce the central distillery system for buildings and establishment and, therefore, the system could be introduced only very gradually. The native press was critical of the Government for failing to check the spread of the habit of drinking. Papers with an evangelical bias were also critical of "the spread of drunkenness by the government".[109]

The pronouncements of the Government officials on this are puzzling if not amusing. "It is believed that under a proper system of [Abkarry] administration the interests of the revenue will be coincident with the interest of morality".[110] It was the aim of the Government "to raise by excise as large a revenue as is compatible with discouragement of use of drug and liquor."[111] It was difficult to translate these ideals in terms of practical policy.

The stamp tax was, in the opinion of the official spokesmen of the Government, a source of "special benefit revenue". Wilson felt that the merchants, traders and bankers who were benefiting from the system of law and order could justifiably be taxed to pay for that expensive system.[112] The stamp tax was, therefore, increased by nearly hundred per cent in 1860 and again increased slightly in 1861. Thus the revenue from stamps which was only Rs. 45.6 lakhs in 1857-58, increased to Rs. 1.18 crore in 1860-61. While the government was quite justified in raising revenue by levying stamp duty on documents of commercial transaction (e.g. *hundis*, bonds, bills of exchange), the stamp duty on judicial and legal documents (such as plaints, petitions, land registration documents etc.) was virtually "a tax on justice".[113] In order to ensure official recognition of documents the well to do traders and bankers willingly paid for stamps to be affixed on their documents, but the tax on people who went to the court of law to

obtain justice was hardly defensible. The official view was that the judicial stamp would check excessive litigation : the people, it was believed, were too fond of litigation.[114]

The Indian newspapers were almost unanimous in condemning the large military expenditure of the Goverment of India. "The military expenditure of the Government, according to a school of Indian politicians, lies beyond the pale of native Indian criticism".[115] This the native journals were not prepared to concede. But, since they might be suspected of trying to reduce British military power in India, while criticising extravagant military expenditure, the *Hindoo Patriot* disclaimed "disloyal motives."[116] In an editorial on the 17 April 1871 the *Hindoo Patriot* pointed out that expenditure on the Army had increased in the period 1863-64 to 1871-72 by Rs. 40 lakhs.[117] Much of this increase, it was pointed out, was due to the "amalgamation" of the Indian army and Crown forces. The cost of recruiting was a drain on Indian revenue; the average cost of each recruit had increased from £ 19.15s. in the 1850's to about £ 205 in 1870.[118] The native papers repeatedly demanded reduction of military expenditure.[119] It urged extensive retrenchment in 1860; the retrenchments made by the Military Finance Commission were not enough.[120] In the following decade military expenditure increased rapidly. Mayo's retrenchment proposals were welcomed by the *Hindoo Patriot* and other Indian papers. The *Punjab Akhbar* pointed out that the army maintained by the Government of India in 1871 was much smaller than the East India Company's establishment, but expenses were larger.[121] Commissariat expenses were often mentioned as the chief cause of rise in expenditure.[122] The expenditure for the construction of military barracks was a heavy capital expenditure from current revenue. This was criticised in native newspapers.[123] Another cause of rise in Military Expenditure in the late '60s was that the Indian Government was charged with some part of the

expenses of the Abyssinian War. India was wrongly charged with such expenses of a War which, the Indian newspapers said, had nothing to do with India.[124] Dadabhai Naoroji addressed a meeting of the East India Association of London in November, 1867, to present the case against the application of Indian revenue for such purposes. It was, he contended, contrary to the provisions of the Government of India Act of 1858. And the Secretary of State "instead of offering to make a present to the English taxpayer from the Indian revenue, ought to protect it from encroachment".[125] The *Hindoo Patriot* brushed aside the Secretary of State Stafford Northcote's apologia. It was not true, the paper said, that Indian Mohammedans had any link at all with Abyssinia. And the fact that only a small part of the expenses was foisted on the Indian Government was irrelevant. "We do not care for the amount, but the principle is vital to India....We only wish that this may be the last case of its kind".[126] The Indian critics did not, of course, know that the Government-General Sir J. Lawrence himself was condemning the same thing in much stronger terms.[127] This shabby deal was not easily forgotten, The retrenchments during Mayo's regime reduced expenditure somewhat and the Government was congratulated on this.[128] But it was noticed that while native regiments were being disbanded the European ones were left untouched.[129] It was wellknown that the bulk of military expenditure was for the European soldiers—expensively recruited, transported, housed, fed and pensioned off at the end of term of service.[130] One native paper made an interesting suggestion—native officers, at a smaller salary than that given to Europeans, should be given command of regiments.[131] But such an idea was not likely to find favour with the Government in those days. The Mutiny had firmly implanted in the English mind a deep distrust of the native soldiers and a determination to maintain an European preponderance in the Army. Indian opinion

on the question of military expenditure was ventilated in 1871 when the Select Committee of House of Commons for enquiry into Indian Finances was formed. The Bombay East India Association in a petition to the Secretary of State demanded the inclusion of military expenditure—which had grown so inordinately as to absorb one-third of the total revenue —within the scope of the enquiry of the Select Committee.[132] Findings of the Select Committee confirmed partially the opinion expressed in Indian newspapers that charges had in some instances been imposed on India which ought to have been borne by England.[133]

The 'Home Charges' also were a target of criticism. The British India Association pleaded in 1869 that, although "your memorialists do not for a moment wish that the Government of India should sit in judgment over the Secretary of State and his Council, or revise his budget", "the tax payer would have an opportunity of knowing exactly the financial position" if the Finance Member's and Secretary of State's budgets were published simultaneously.[134] The Government could not see its way to effect this. This was a very moderate request compared to demands made by some native papers. The prominent Bombay Journal *Jam-e-Jamsed* demanded that the Secretary of State's power to spend Indian money be specified and restricted clearly.[135] The *Rast Goftar* agreed that this power must be delimited.[136] The *Hindoo Patriot* also thought that the continual increase of 'Home Charges' demanded urgent remedial action.[137] More details with regard to the home expenditure of the Government were demanded.[138]

In 1867 Dadabhai Naoroji, in a paper read before a meeting of the East India Association of London, estimated that in 36 years since 1829, £ 100 millions had been transferred to England in the shape of home charges. According to Naoroji, of the revenues raised in India a quarter went out of the country to England.[139] These estimates, whatever their real worth,

made a great impression on Indian opinion. In the petition to the Secretary of State the East India Association of Bombay demanded an enquiry by a Select Committee of the Commons into the 'Home Charges'.[140] Naoroji and Henry Fawcett anticipated R. C. Dutt and others who later sought to establish the theory of 'drain of wealth' with greater wealth of data. Fawcett—who influenced Indian opinion profoundly[141]—saw "a cause for apprehension to see a constantly augmenting proportion of the revenue of a country not spent in the country itself."[142]

"Home Charges" in the official jargon of nineteenth century India meant foreign charges, i.e. expenditure in sterling in England. Net disbursements in England averaged about £ 9.4 million per year in 1860-65 and about £ 9.5 million in the second half of the decade. The Government of India had no direct control over the Home Charges incurred in England by the Secretary of State. In the period under review on two occasions the Secretary of State's estimates of anticipated expenditure in England were reduced in the Indian Budget. On both occasions the Secretary of State severely reprimanded the Finance Members and the Indian Government : the Home Charges budget was revised upwards on both occasions. The Secretary of State decided the ways and means by which the English disbursements were to be met—bills of exchange and telegraphic transfers on India drawn in London, bullion remittances from India, loans raised in England, use of the receipts in England from guaranteed railway companies etc.

The main heads of Home Charges were as follows :

(1) Interest on Debt : This included dividends to proprietors of East India stock; £ 629,970 was annually paid to the stockholders from 1834 to 1874 (when the stocks were redeemed). The interest on loans contracted in England and interest on Indian loans paid by bills on London constituted a very large item. We have seen how the public debt

of India increased in the period under review. The interests paid in England amounted to a mere £ 889,000 in 1856-57; in 1860-65 average annual interest charges were £ 2.03 million and in 1865-70 the average was £ 2.08 million.

(2) Stores for India: Stores purchased in England for civil departments (including the public works department, the mint, and post and telegraph department), the army and the marine generally cost India over a million, but it rarely exceeded a million and a half. The control of procurement of stores from England was a grave problem. In 1862 the different departments of the Goernment were ordered not to requisition stores from England directly: all requisition orders were scrutinised in the Finance Department before being passed on to the Secretary of State.[143] The Secretary of State, at the request of the Government of India, made it a rule to scrutinise indents for stores in India Office and to compare the demands made with stores consumption in the past years before passing the indents finally.[144] Col. Balfour of the Military Finance Department, who was trying to reduce military charges, laid down rules for the control of procurement of military stores.[145] The Secretary of State urged the Indian Government to reduce charges in England for stores by obtaining paper and stationery in India if such could be obtained in India at a lower price.[146] In 1866 the Secretary of State again urged the Indian Government to reduce stores charges in England: it was pointed out that stores charges including freight charges had increased three-fold in three years, 1864-66.[147] In order to plan stores expenditure in advance the Indian Government decided to send in advance to the Secretary of State estimates of indents before the commencement of the financial year.[148] The Secretary of State began to procure stores by inviting tenders in order to ensure supply at the lowest price: the system was in use before, but now the "principle of public competition" was applied more consistently.[149] All these steps were un-

successful in checking the increase of stores expenditure. In 1869 the Secretary of State again drew attention to the rapid rise of stores expenditure and blamed the Indian Government for insufficient check on indent of stores.[150] Mayo conceived the idea of establishing a stores Indent Committee consisting of representatives from the Public Works, Military and Finance Departments.[151] Such a Committee was appointed and a system of annual review of stores expenditure was established.[152] These measures enabled the Government to avoid wasteful expenditure of stores but the stores charges, it appears from statistics, continued to increase. The expansion of the functions of the Post and Telegraph Department and the Public Works Department, and the construction of the railways necessitated import of materials and equipments from England.

(3) 'Home charges for service of British forces in India' was an important head. We have discussed in the previous chapter the effective and non-effective military charges on Indian revenue.

(4) A connected expenditure was the transport charge of troops going out to India or returning to England. Upto 1900, when the Welby Commission recommended that the British Treasury should pay half the cost of passage, the entire transport charge from the day of embarkation in England was charged to India. The short service system increased the transport charge. This head of charge varied from year to year.

(5) Charges for pensions and annuities to retired officers Civil Service and their furlough allowance also swelled the Home Charges: these were called non-effective charges.

(6) The guaranteed interest on railways constituted a very large item. The interests paid to guaranteed companies increased from an annual average of £ 2.2 million in 1860-65 to £ 3.5 million in the second half of the decade.

In 1860 the Secretary of State very clearly depicted the situation: "The interest on railway capital guaranteed must be expected to increase. The gradual completion of the Railways will, by augmenting the net receipts from traffic, tend to some extent to keep down the charge for interest, but looking to the fact that upwards of £ 20,000,000 must yet be raised in order to complete the works a further augmentation of the charge for interest must be anticipated for some years to come. The character of the interest is undoubtedly different from all others, as it is eventually repayable to the government, and repayment will commence to some extent as soon as any railway shall become remunerative to an extent exceeding 5 per cent but it cannot be concealed that the date of its repayment is remote...."[153] We have discussed the guarantee contracts under which the interest charges were payable in an earlier chapter. We should note that not only was the interest charge a heavy burden, but an additional source of financial embarrassment to the Government was the uncertainty of receipts from and disbursements to Railway Companies and their habit of overdrawing on their accounts.[154]

(7) The head of 'Home Administration' included charges for the Secretary of State's salary, the salaries of the Under-Secretary and the members of India Council, establishment charges of India Office, payments to Bank of England for management of debt, payments to Auditors (under Sec. 52 of Act. 21 & 22 Vict. C. 106), postal charges etc. Expenditure under this head was £175,000 in 1860-61 and it did not exceed £ 200,000 until 1868-69; in 1870-71 the charge amounted to £ 216,000. This expenditure and expenditure for foreign consular establishment were subject to close scrutiny and criticism in India. For instance the Secretary of State's ball to welcome the Sultan of Turkey became notorious as a case of waste of the Indian tax-payers' money: Northcote privately wrote to Lawrence that the "Sultan's Ball" had "scandalised

a good many people".[155] Under an agreement concluded in 1834 the Indian Government contributed one-third of the expense of consular establishments in China: the charges amounted to about £ 23,000 in 1860-61, £ 14,000 in 1861-63, £ 17,000 in 1863-65 and £19,000 in 1865-67. In 1860, 1862 and 1866 representations were made to the Lords of the Treasury to reduce the charges, but they declined to revise the agreement of 1834.[156] In 1860 the Indian Government tried to reduce or to remove the charges on account of Aden: it was pointed out that Aden was on the route not only to India but to Australia, New Zealand and Singapore, but India alone was made to pay for military and political expenses in Aden.[157] It was also pointed out in the same despatch to the Secretary of State that administration of the Straits Settlement was costing India Government Rs. 5 Lakhs (£ 50,000) annually and the transfer of the Settlement expenses was urged.[158] The Government of India asserted the principle that India's revenues were "to be devoted to purely Indian purposes" and India must be relieved of "extraneous charges".[159] The efforts of the Government bore some fruit: Britain shared half the cost of Aden with India and in 1867 the Straits Settlement was detached from the Government of India thus reducing extreneous charges to some extent.[160]

In addition to the Home Charges the Indian Government also had to pay a large amount of money in connection with 'home' transactions: this was known as 'Loss by exchange on remittance to Home Treasury.' The exchange value of the rupee was officially at 2 shillings, but the market rate fluctuated. Whenever the exchange value of the rupee fell below 2 shillings, more rupees were needed to pay for the sterling charges paid out of the Home Treasury, We have discussed elsewhere how the faulty contracts with guaranteed railway companies involved a loss by exchange. Naturally this item

of charge fluctuated a great deal depending on the exchange rate and volume of home remittance.

Generous expenditure on the army, the Home establishments, stores from England etc. constrasted sharply with the niggardly grants for education. The expenditure on education trebled between 1857-58 and 1871-72. In the same period the number of educational institutions increased more than five times and the average number of students attending these institutions increased six times. The rate of development seems promising. Education was the sine qua non not only for admission to the fabled elysium of the *Sąrkari dafter* (government bureau), but also for entry into the professional fields, the new pastures for the growing middle-classes. The Government's satisfaction with the rate of development was not shared by the clamorous middleclasses hankering for educational opportunity. The figures relating to the number of institutions and pupils caused much selfcongratulation in Government circles. But such statistics have to be interpreted with caution. It is possible that under-reporting in the early years is responsible for creating an exaggerated impression of rapid development in the late sixties and early seventies. In 1857-60 the Government was spending on the average Rs. 24 lakhs per year on education : the corresponding figures for 1861-65 were Rs. 29 lakhs and for the second half of the decade Rs. 53 lakhs. The latter figure compares favourably with the average of the years immediately after the Mutiny, but even in the late 'sixties expenditure on education accounted for only 1% of the total annual expenditure of the Indian Government. The Government of India, aware of the inadequancy of educational grants, urged the provincial governments to raise funds for education by levying local cess. This applied particularly to vernacular education for which funds could not be provided from general revenue.[161]

Throughout the period under review Bengal received more

educational grant than any other province.[162] But the Government was not quite satisfied with the result. "The truth is that the education of Bengal", Mayo wrote to Sir E. Perry, "is directed by men who adhere to what is called the 'filtration' [theory] (which in my opinion is utter nonsense)—that is to say if the upper classes acquire knowledge the example set by them will gradually advance education among those below . . . [but] if you want to educate the people you must begin from the bottom and work up".[163] It was felt that primary education was being neglected and the new Universities and Colleges tended to make the structure of educational finance top-heavy. "In Bengal, you are educating in English, a few hundred Baboos at great expense to the State. Many of them have no other object than to qualify themselves for Government employ—in the meantime you have done absolutely nothing towards extending knowledge to the millions".[164] Moreover, Mayo conjectured, English education was not "diminishing the people's dislike to us and our Rule". "There is not a more discontented being in Hindoostan than the English Educated Baboo who has failed to obtain Government Employ".[165] At any rate, since the Indian Government could not afford to create a system of primary education for the people, that task must be left to the local authorities. In 1871, under the Financial Decentralisation scheme, education was one of the branches transferred to the provincial governments.

Dadabhoi Nauroji and Robert Knight, editor of the *Indian Economist,* anticipated in their writings many of the arguments later used by Romesh Dutt and other nationalist thinkers. In a series of articles Robert Knight in 1869-71 argued that India was paying an excessively high rate of interest to English investors "and their gain was the precise measure for India's loss".[166] He went further and denounced the Indian debt[167] "a purely English liability from beginning to end,[168] unjustly fastened upon

Indian treasury".[169] The interest charges for the East India stock and for the Mutiny debts Knight found particularly indefensible. To Naoroji the interest charges were the "political burden . . . owing to the evil administration of expenditure"[170] which added to the drain of resources of India. Both Knight and Naoroji made a distinction between the "political" bebts and debts on account of the public works. Even for the latter sort of productive investment India unfortunately could not provide capital : "India sorely needs the aid of English capital", but "not the English invasion also to come and eat up both capital and produce".[171]

According to the *Indian Economist* the interest rate in the rural areas could be any where between 20% and 50% and the commercial rate in the Presidency towns in 1873 was 9%.[172] Therefore, it was cheaper for the Government to borrow in London. As we have noted earlier, the Indian Government defended the policy of borrowing abroad on this ground. The scope for raising domestic loans was limited and it was convenient to borrow from foreign lenders. Naoroji conceded this point. But he was critical of the Government's increasing sterling indebtedness : first, because it arose primarily from "political debts", and second, because interest payments were made to lenders outside the country.

The tariff policy was a lively subject of debate in the late nineteenth century and the "industrial infanticide" thesis had an important place in the nationalist indictment of British rule. In the 'sixties the tariff question had not yet assumed in Indian eyes this importance. The organisational reforms in Customs administration were indeed viewed with approval : the removal of fiscal restrictions on trade between the ports of British India and native princely states, introduction of customs valuation system to ensure the uniformity of valuation all over India and the rationalisation of the customs collection method. In relation to Native

States, the Government aimed at what Strachey called "a sort of Zollverein arrangement".[173] A series of agreements with native states removed fiscal restrictions on country trade, though care was taken to ensure that native states would not "under-bid the Government of India" and draw trade out of British Indian ports by lower duties.[174] Revision of customs valuation was started at the instance of James Wilson who found on arrival in India the ad valorem duties being applied to different valuations at every port.[175] In 1860 the first uniform valuation for all India was introduced.[176] The previous year Act VII of 1859 had established for the first time a uniform tariff for the whole of India. In 1867 the Free List was abolished. This was a list of commodities free of customs duty. Every conceivable article not mentioned in the list was liable to examination and duty. In place of this irrational practice, the new British system was adopted : a list specified articles liable to duty and all other articles were declared to be free.

Efforts such as this to rationalise the system were, of course, appreciated by the public but the principles behind the tariff were viewed with reserve and suspicion. "Free trade is a good thing", the prominent native journal *Hindoo Patriot* wrote in 1870, but not for all countries. "While it is the interest of England to do away with the import duties of India altogether, it is the interest of India to so regulate them as to combine advancement of home industry with the encouragement of foreign trade".[177] The pressure mounted by the British merchants in India to reduce customs duties could be resisted only with the support of the Home Government and such support was extended only at times of financial crises on the ground that tariff revenue was needed to bridge financial deficits. For instance in 1859, in order to tide over the post-Mutiny Financial crisis, Canning increased the import duty and encountered the ire of the mercantile community, but he

could get away with it. The Calcutta merchants' protest, that the new duties were "retrograde in its character and opposed to the wise spirit of recent commercial legislation in England", and the Bombay merchants' petitions were of no avail.[178] Canning personally introduced the bill in the Legislative Council and had it passed within two days: Lord Stanley, the Secretary of State, supported Canning and suggested further increase in Customs duties, in view of the financial crisis. When Charles Trevelyan proposed to increase export duties on hide, sugar, tea, jute and grains, there was again opposition from the Chambers of Commerce.[179] Trevalyan received the support of his colleagues in the Council, but he failed to get the approval of the Secretary of State. In the interests of Indo-British trade, said the Secretary of State, the new export duties must be disallowed.[180] The Government of India had to retreat ignominiously and sections of Customs Act XVIII of 1865 relating to export duties were repealed. The men who controlled the tariff policy in India were responsive to the pressure of the British mercantile community in India, but not always abjectly acquiscent. They were responsive within limits. These limits were set by the overall financial position, the attitude of the Home authorities, the degree of pressure exerted by the interest groups, and calculation of possible impact of government's decisions on native opinion.

The Indian newspapers, like the nationalists of later days, were in favour of decentralization of finance. Even a decade before Mayo's celebrated scheme of Financial Devolution the *Hindoo Patriot* was writing: "the right remedy in our opinion is the federalization of finances . . . let the Imperial charge be first settled, and a *prorata* contribution be levied upon each province; the balance may be left to meet its local wants . . ."[181] It was even claimed that the Hindu and Mughal financial systems were federally administered.[182] Since Trevelyan, Governor of Madras, was opposing James

Wilson's centralization policy, the former was given full-throated support.[183] Decentralization appealed to the *Hindoo Patriot* because it believed that Bengal was being made to pay more than its fair share for imperial purposes. Bengal "has always been treated as the milch cow for the benefit of the whole empire".[184] The chief attraction of the decentralization scheme, in the opinion of that journal, was that it would ensure a fair distribution of burden among the provinces[185]. Secondly, decentralization was welcomed as a step in the direction of "association of Indians with local government". The British Indian Association hoped that the local governments would be "empowered to raise taxes according to the ideas of the people in each state" and that "the people should be invited to take a practical part as much as possible in administration".[186] The *Hindoo Patriot* thought that Mayo's scheme was a step in the right direction but "did not go far enough".[187] That journal visualised as the ultimate end a federal state—"a confederation of states each governed by its own legislature and executive, each depending on its own resources . . . but all bound to obey in imperial matters a central authority . . ."[188] Measured by such standards Mayo's scheme conceded really a very small measure of decentralization It was regarded by the East India Association as "an unwilling concession", "wrested by force of public opinion from the Government" but quite valueless otherwise.[189]

The decentralisation scheme was attractive because of the possibility of greater Indian participation in the administration of local finances. The scheme also appealed to the provincial or, as its was often called, the "sectional" spirit. Indian and Anglo-Indian newspapers annually played a game after the publication of the budget : this was the calculation of "contributions" made by each province in terms of revenue and the "returns" received by each. The uneven regional distribution of public works investments caused much heart-burning. The

Bengal journals for instance, complained that Bombay and Madras were given preferential treatment while "the wealthiest of the Presidencies [Bengal] is too much near the candle to receive its due share of light".[190] What were the facts? Till 1862 Bengal generally received more than 15% of public works investments, which was about equal to Bombay's share though considerably less than what the North Western Provinces or Madras received. The military operations during the Mutiny and other works needed during the period of recovery after the Mutiny, called for extraordinary expenditure in the North Western Provinces and Oudh. The fact that Bengal was under Permanent Settlement and that increments to agricultural income would benefit the land-owning classes more than the State, probably influenced the Government's decisions on investing in irrigation canals and in the maintenence of embankments. From 1861-62 an added element in the situation was the impact of the cotton boom in western India and the drive to build "cotton roads" to supply cotton to Lancashire then suffering from a cotton famine on account of the civil war in America.[191] From then onwards Bombay received preferential treatment in fund allocation: cotton interests in England pressurised the Government of India to ensure this. In the period 1863-66, Bombay received on the average more than Rs. 1 crore per year (24% of the ordinary public works expenditure) compared to an average of Rs. 81 lakhs per year spent in Bengal (17% of the total), Rs 66 lakhs in Madras (13.9%) and 61 lakhs in the North Western Provinces (12.9%).[192] Bombay Presidency's share declined somewhat in the next five years while Punjab increased her claim. Nevertheless, the average annual public works expenditure per square mile in 1863-72 remained very high in Bombay (Rs. 79 per square mile) and the North Western Provinces (Rs. 79) compared to Madras (Rs, 45 per square mile) and Bengal (Rs. 34).[193] We have mentioned in an earlier chapter that

in 1871, public works expenditure (ordinary) per head of population was Re. 0.53 in Bombay and a mere Re. 0.1 in Madras and Bengal. The rapid economic development of the city and hinterland of Bombay was partly due to the preferential treatment of Bombay Presidency in the distribution of public investments in certain economic overheads.

Inseparable from this question was the question of "contributions" made by each Presidency or province in the form of land revenue or taxes. While the direct taxes and the commodity taxes of various sorts collected in Bengal, gave her a lead over other Presidencies the land revenue of Bengal remained almost stationary on account of the Permanent Settlement of 1793. The growth of land revenue in the period 1856-57 to 1870-71 was of the order of 15% in India : the percentages of increase in that period were 37% in Bombay, 36% in Oudh, 16% in Madras, 7% in Punjab and 6% or below in the North Western Provinces, Bengal and the Central Provinces.[194] The overall rate of growth was fairly high in this period on account of slow but steady rise of land values, the reassessment and settlement in Oudh and Orissa, confiscations after the Mutiny, increase in cultivated areas, the cotton boom in Western India in 1861-64 etc. In 1871, land revenue per square mile in Bengal (Rs. 177) was much less than in Bombay (Rs. 200) or in the North Western Provinces (Rs. 452).[195] The fixation of the Government's demand in the areas under the Permanent Settlement debarred the Government from claiming what it could get by the normal process of reassessment in areas of Temporary Settlement. How to get back what the Government had relinquished in land revenue on the conclusion of Permanent Settlement was the problem. We have seen how strongly the beneficiaries of the Permanent Settlement, the zamindar class, resisted the taxes on their income though the chief tax on them, the land tax, had been settled permanently.

The official theory was that land revenue was a rent and not a tax. "From time immemorial the State has possessed", wrote John Strachey in a well-known financial memorandum in 1874, "both in theory and in practice, the greater part of the property in land in India, and has taken such portion of the rent as it has appeared possible or expedient to take. The land revenue of India is simply this portion of the rent of the land".[196] That the land revenue was distinct from tax was not just a theory : it was interpreted to mean that the permanent settlement of the revenue did not involve abandonment of the State's right to tax all subjects. In other words the land revenue had been fixed but nothing prevented the Government from levying cesses on land revenue or collecting income taxes on agricultural income. The land-owning classes in Bengal were never reconciled to the income tax or the local cesses because they regarded those taxes as breaches of the Permanent Settlement. From James Wilson's time onwards the official view was that the zamindars had misconstrued the law in confusing the permanence of revenue with exemption from all tax. "To say that because the Government nearly a hundred years ago made certain arrangements in Bengal, therefore the richest interest in the richest part of Bengal is to be exempted for ever from taxation" was "a manifest absurdity".[197] It is only to be expected that this impatience with the "pretensions" of the Bengal landlord class would be shared not only by the British merchant groups in India, such as the Bengal Chamber of Commerce, or the British dominated Calcutta Trades Association (whose members had no stake in the zamindary system), but also by Indian tax-payers outside Bengal. In the petitions from Bombay, Ahmedabad and Madras, the recurring theme was that not all the possessors of wealth in land were contributing their due share to national revenue whereas business and professional income was being taxed heavily.[198] A conflict of interests is clearly in evidence in the petition of the native

merchants of Bombay urging the Government "not to tax the industrial classes for the benefit of the idle and the wealthy . . . . life incomes and incomes drawn from business and professions should be less heavily taxed than those arising from property . . ."[199]

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This brief survey serves to bring out the salient features of 'public opinion' in India on *first*, the questions of tax burden in relation to national income (pp. 232-38) and the representation of tax payers (pp. 238-43) ; *second* those component elements of financial policy which attracted greatest public attention : income tax and other direct taxes (pp. 243-45), opium, excise, and stamp revenues which raised tortuous questions of 'ethics' (pp. 245-53), Military and Home Charges (pp. 253-61)—those hardy perennials in the nationalist bill of arraignment—and questions concerning import of British capital and manufactures (pp. 262-65) ; and *third* the distribution of 'gains' accruing to, and 'contributions' made by the component parts of the Indian empire in terms of regional distribution of public works investments, per capita burden of land tax in different regions etc. (pp. 265-70). We have already mentioned two problems in this connection. In the first place, the selection of fragments from newspapers, pamphlets, memorials, statements made by public associations etc. is more open to the danger of being patterned by pre-conceptions than perhaps any other exercise in historical reconstruction Secondly, the use of the terms 'nationalist opinion' and 'public opinion' begs a host of questions. Was there in this period a coherent set of ideas which might be called nationalist ideology or opinion ? As Bartle Frere put it, is published opinion the public opinion ? How far is the opinion that is published shared by others i.e. the members of the public ? Is public

opinion to be judged in terms of the extent to which the opinion is common to the entire population of the country, or the politically relevant 'elite' only? We have found it useful to retain these terms, however loose they may be, provided the specific context clarifies the source from where the opinion issues and finds public expression. It is perhaps useful to disaggregate the notion of the 'public' and think in terms of 'publics', and to study the diversity of ideas and opinions rather than search for mysterious manifestations of the general will. We have noticed time and again conflicts not only between the *sahibs* on the one hand and the *zamindars*, the *banias* and the educated *baboos* on the other, but also between groups belonging to the subject race. The resentment of the urban professional and business classes against the rentier landlord class (who were exempt from license tax and paid income tax on their unearned income at the same rate as the men in business or learned professions), the upper income-group's efforts to persuade the government to increase regressive indirect taxes (especially the salt duty which was virtually a poll tax on the masses) so that they might be relieved of the burden of income taxes, provincial jealousy and rancour with regard to regional distribution of government investments —these are some cases in point. In the introductory chapter we have studied this conflict between interest groups, each trying to secure financial policy decisions favourable to itself. How to ensure the representation of the major interests was the question to which the Indian National Congress addressed itself in its formative years. At the first session of the Congress K T. Telang outlined a scheme for the representation in the legislature) of the Chambers of Commerce, the British Indian Association, the Universities and local bodies. At the second session the Chairman of the Reception Committee, Rajendralal Mitra, observed that the non-official members of the Legislative Council represented no one

but "their own good interests" and the Congress proposed 'sectional' representation. In the Calcutta Congress Surendranath Banerjee, anxious that all classes and communities and "all great interests are adequately represented", proposed a scheme on the lines sketched by Telang. Shortly after that, in 1888, the Committee on reform of the legislative council —the Committee appointed by Dufferin—recommended measures for the representation of these 'constituencies' : hereditary nobility and landed classes, trading, professional and agricultural classes, and the European planting and commercial interests ; eventually the passing of the Indian Councils Act of 1892 made the representation of some of these interests possible.[200]

At the same time some elements of economic nationalism, transcending the 'sectional' principle, were germinating. In the midst of the cross-pressures of diverging interests there emerged some measure of community of feeling on certain issues—desire for the replacement of the expensive British personnel in the bureaucracy with Indian personnel, dissatisfaction with mounting Military and Home Charges, demand for the reduction of public expenditure in general so as to reduce the tax burden, doubts about the dictates of the conventional wisdom of the day regarding tariff policy, aspiration for representation as a concomitant of taxation—and such other issues which stemmed from what were felt to be common grievances of the subject nation. Some of the ideas voiced in this period bear a resemblance to those implicit in the resolutions of the Congress in the early years of its existence. Naoroji's chief achievement was to give expression to these ideas clearly, to integrate them and to emphasise some crucial issues : whether the income and employment generating effect of public expenditure in India offset the effect of taxation, how increasing sterling indebtedness and government expenditure outside India swelled the Home Charges, how the tax burden com-

pared with taxable capacity and per capita income, and above all "how to return to the people what is raised from them". Naoroji's investigations extended far beyond the area of public finance to an elaborate study of balance of payments based on statistics he obtained from Parliamentary Papers. This eventually produced, in the 'eighties and the 'nineties, elaborate expositions on the problem of 'economic drain'. Naoroji considered all possible channels of transfer of funds. Confining ourselves to the questions of public finance, we have discussed (Chapters III and V) only the items arising out of what Naoroji called 'governmental transactions', viz. sterling debt charges for 'political debts', railways, public works, administrative and military charges incurred in England, stores purchase by the government etc. We may mention in passing that nationalist spokesmen of the late nineteenth century were curiously selective in adopting Naoroji's ideas for political use. Ganguli has pointed out that there were certain radical elements in Naoroji's thesis e.g. the condemnation of a regressive tax structure; the spirited defence of the interests of the "ordinary coolie or labourer" on whom the salt duty was a far heavier burden than on the high income groups; the hint that "because richer interests can resort to agitation and make themselves heard, while the poor labourer and cultivator cannot" the latter were subjected to exploitation through taxation; the concept of 'internal economic drain' i.e. the transfer of wealth, through taxation, from the rural masses and the redistribution of income in favour of the urban bourgeoisie.[201] It is significant that these elements in Naoroji's thesis (unlike his ideas concerning 'external economic drain') did not attract fervent support or even attention. Indeed, Naoroji himself refrained from highlighting his idea of 'internal drain'. We have mentioned earlier how Romesh Dutt—who in 1875 boldly spoke of the need of a permanent fixation of the *zamindar's* demands on the *ryot's* produce and was

duly rebuked by the *Hindoo Patriot* for his "spirit of radicalism"—withheld his attention from the exploitative aspects of *zamindar-ryot* relationship in his mature and well-publicised writings.[202] Possibly opinion-leaders like Naoroji and Dutt felt that their prior commitment was to the struggle against 'external exploitation' as they conceived it. The *zamindar* in Bengal, the *bania* in Bombay or the educated professional people in the cities were ready to receive the message on that form of exploitation rather than other ones in which, directly or indirectly in collaboration, they themselves were suspected of having participated.

To sum up, there were on the one hand the cross-pressures of conflicting commitments, ties of interest, and loyalties : on the other hand there was also emerging a pattern of thinking that developed into nationalism. The significance of the game of the pressure groups becomes clear only in the light of later historical experience. The game, in the period we have studied, was essentially manoeuvring on a sub-political level. While playing the game the educated urban professional classes began to sense the salience of one conflict in the midst of diverse conflicts of economic interests : this conception of nationally bounded clustering of interests was the beginning of economic nationalism. The effort to organise opinion, to publicise grievances or demands, lobbying and so on—these are exercises that limber up the political mind. Consequences of such activity extended far beyond the immediate arena of action. The pay-offs immediately obtained in the game were small. But the emergence of a national political party was facilitated. A new game was soon to start for higher stakes.

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112 Government of India to Secretary of State Fin. no. 144, 29 June 1860

113 Vide C. N. Vakil *op. cit.* p 484

114 Fin Progs Mar. 1868. no. 39. Note by Financial Secretary, dt 14 Feb. 1868. Vakil *op. cit.* p 483 Home Progs. Public April 1871. no 13 Home Secretary's Memorandum dt 14 Mar. 1870

115 *Hindoo Patriot,* 15 May 1871

116 *ibid*

117 *Hindoo Patriot,* 17 Apr 1871.

118 *Hindoo Patriot,* 15 May 1871

119 *Hindoo Patriot,* 11 Apr 1870; 5 June 1871; *Rast Goftar* 13 Nov. 1870 RNP (Bmy) p. 544

120 *Hindoo Patriot,* 12 Dec. 1860, 30 June 1860, 11 July 1860.

121 *Punjab Akhbar,* 8 June 1871 SVN (North-West Provinces) *Prayag Doot,* RNP (Bengal) 15 July 1868

122 *Rui-noo-mai Punjab,* 8 Feb 1867. SVN (N.W P) p. 102

123 *Bhaskar,* 28 Mar. 1868 RNP (Bengal) 1868, p 153.

124 *Bhaskar,* 4 June 1868 RNP (Bengal) 1868 p. 21; *Rajshahee Patrika,* Jan 1868 RNP (Bengal) 1868. p 59; *Oudh Akhbar* etc. June 1868 SVN (N.W.P) p. 298.

125 Dadabhai Naoroji, *Essays, Speeches, Addresses etc.* (Bombay, 1887) p 54

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130 *Jam-e-Jamsed,* 10 Mar 1869 RNP (Bmy) p. 133.

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133 Vide supra p. 104.

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135 *Jam-e-Jam sed,* 4 Aug 1868 RNP (Bmy) p. 230, 15 Mar. 1869 RNP (Bmy) p. 144.

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138 *Punjab Akhbar,* 10 June 1871 SVN (NWP) p. 303.

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198 see Chapter IV. p. 157 *et seq.*

199 Petition from 3646 Native Merchants of Bombay, 12 October 1859, *Correspondence on Direct Taxes* (Calcutta, 1882) vol. I, p. 30.

200 B. B. Majumdar *op. cit.* pp. 320, 339, 344-45.

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STATISTICAL APPENDIX

It· is a commonplace that the chief problem confronting the student of Indian history is the scarcity of quantitative data. When I began this study I was much relieved to find impressive phalanxes of figures on Indian finances in some published works and notably in the *Statistical Abstracts relating to British India.* As the work progressed I began to realise the limitations of the published data. As Mitchell and Deane have remarked in their introduction to *Abstract of British Historical Statistics,* the snags of a statistical series emerge only when an attempt is made to use the data in analysis. Though my attempt was rudimentary and restricted in coverage the snags that I discovered should be brought to the attention of the reader.

So far as the published long-period time series are concerned the chief problms are as follows : Many of the statistical series available in Parliamentary Papers—in particular in the evidences submitted to and the reports drawn up by Parliamentary Select Committees—were processed for special purposes. Instead of basic data, synoptic accounts were published and these are often not comparable because of definitional and conceptual changes, transfer of components from one item of revenue (or expenditure) to another, transfer of items from revenue to capital account retrospectively, aggregation of several items under one Head of Revenue (or Expenditure) according to varying principles etc. This is also true of the *Statistical Abstracts* where changes in format and revisions of statistics published earlier in the *Abstracts* were incorporated without adequate explanation. All this makes the construction of long-period comparable time series exceedingly difficult. In the tables below the latest revisions have been adopted (unless definitional changes or transfer of component items from one

head to another interfere with the comparability of a time series) and the published series have been checked by comparing them with the annual Financial Statements and the unpublished records. Where there is a break in the series it has been indicated in the Notes under the relevant Table. Items appropriate to a particular Head of Revenue or Expenditure are included, as a rule, under that Head throughout the period. Where a transfer of a component item was made in the available accounts from one head to another, and disaggregation was found impossible, such transfer is indicated in the footnotes.

The records on the Finance Department are voluminous (vide Bibliographical Note). The slow growth of the department from an office for keeping accounts of disbursements (1843) to an agency of financial control headed by a top member of the Government, the Fnance Member (1859), the beginnings of a Financial Service (1857) and Trevelyan's efforts to recruit and train personnel for the Department have been described earlier (pp. 46-51 above). While the Financial Department was undergoing reconstruction, the accounting system also was developing rapidly from what was called the system of 'commercial accounting' of the East India Company to a system more appropriate to governmental finance: the budget system was introduced in 1860 (vide pp. 51-57 above), and a series of reforms in the audit and accounts system culminated in the reorganisation suggested by Foster and Whiffen, two consultants selected in England by Trevelyan and Gladstone. As a result of these changes from the latter half of the century collection of financial data greatly improved. But the changes in the principles of accounting, the formats, the classification of items etc. made the comparison of statistics of the post-reorganisation period with those of the previous period difficult and this accounts for some breaks in the statistical series. The Financial Despatches of the Governor-General in

Council to the Secretary of State on the Anticipation, Sketch and Regular Estimates (vide pp. 51-52 above), the Financial Statement annually made by the Finance Member from 1860 onwards (Legislative Council Proceedings, Old Series, vols. VI-VII, and New Series, vols. I-XI), and financial abstracts in the *Gazette of India* provide accounts for each financial year in synoptic form.

In some cases the aggregate gross revenue and expenditure under a heading are available but the detailed breakdown into component items for the entire period is not possible. For instance, detailed breakdown of the heads of expenditure, Army and Public Works, are available only from the middle 'sixties. In such cases the series in the Tables below begin from the point when a continuous series can be reconstructed from the published series and from the annual accounts. Where the statistics are discontinuous and not comparable with the main series available, they have not been incorporated in the Tables below : if important, they are mentioned at the end of the relevant Table in the foot-notes.

The inadequacy of data is most acutely felt when one considers questions concerning national income or international trade. From the growing literature on the subject it is increasingly becoming evident that the uncertainty surrounding 'guesstimates' of national income and the possible margin of error are not small even for the early twentieth century and grow greater as we go back in time. Again, the statistics that we have for the best part of the nineteenth century indicate only the official value of imports and exports which yields a very imperfect indication of movements in the volume of trade. An assessment of Dadabhai Naoroji's estimate of India's national income or the construction of a volume index of overseas trade in the nineteenth century are not to be lightly undtrtaken as a by-product enterprise secondary to some other research effort. We await the results of research now

in progress (e.g. Dr. K. N. Chaudhuri's work on India's overseas trade) in these critical areas.

One of the problems of the early nineteenth century statistics relating to the finances of British India is that due to rapid territorial expansion comparison of aggregate figures of different periods and statistics on administrative divisions, which were fluctuating in size, is a laborious process. In the period 1858-72 there were only minor territorial changes. The accounts of the Straits Settlements (which remained a Crown Colony till 1941) were not separated from the accounts of the Government of India till 1866-67; this also applies to the Hyderabad assigned districts. With these exceptions there was no change affecting the accounts of administrative divisions tabulated below. It should be noted that in the Government of India accounts of this period, India included Lower Burma, Bombay included Sind, and Bengal (except in Table 4 which is based on a statement drawn up in 1888) included Assam.

The financial statistics of this period in their published form (e.g. in the statements submitted to Parliament by the Secretary of State, to the latter by the Governor-General in Council, and to the Legislative Council by the Finance Member) were invariably in terms of £ sterling. The accounts kept in India were, however, in terms of Rupees. For purposes of public statements Rupees were converted to sterling (at the rate of Rs. 10=£ 1) and it was found convenient to use for official purposes the symbol Rx (Rx=Rs. 10). For the sake of uniformity the statistics in the following Tables have been given in terms of Rupees (with the exception of Tables on expenditure in England, interest charges paid to British guaranteed companies, and public debt). While the official rate was constant (at Rs. 10=£ 1) during the entire period, the market rate, of course, fluctuated and this caused 'loss by exchange' on remittances to England (vide pp. 260-61).

Finally, about the financial year: it did not naturally

correspond with the calendar year. The financial year began on the 1st of May in the period 1858-66 and on the 1st April from 1867 onwards. (An incidental result is that figures relating to the financial year 1866-67 cover a period of only 11 months). There were proposals to antedate the beginning of the financial year further so as to make the Indian accounts available to Parliament earlier and, if possible, to begin the financial year on the 1st of January (vide p. 56 above). But the proposal was not found practicable in view of the intimate connection between the Indian harvest seasons, the revenue collection operation, and the state of the money market. In the Tables below, as in the Indian financial accounts, for each financial year the terminal year is mentioned : thus 1860 stands for 'the year ended 1860' i.e. the financial year 1859-60.

The published sources and the chief unpublished sources are indicated in the Notes below.

I am grateful to Mr. H. Sanyal who kindly offered to correct the printers' proof-sheets of the entire statistical appendix and checked the Tables.

Notes on sources :

1.1-1.3 : P.P.H.C. 1868-69, vol. 70, p. 8, table 7; P.P.H.C. 1870. vol. 68, p. 255, table 9; P.P.H.C. 1877. vol. 85, p. 247; Financial Abstracts appended to Legislative Council Proceedings VI-VII (old series), I-XI (new series).

2 : P.P.H.C. 1876, vol 77, p 264, table 21; P.P.H.C. 1874, vol. 70, p. 4, table 5; P.P H.C. 1870, vol. 68, p. 225, table 9; *Financial Statements* (Calcutta) 1860/61-1871/72; L. C. Progs. (old series) VI, p. 561 & Appendix.

3 : P.P.H.C. 1875, cd. 406, M.M.P.R 1873-74, p. 65, table 36; L. C. Progs. (old series), vols. VII pp. 209, 354; L. C. A. Progs. (new series) vols. II p. 76, III p. 129, IV pp. 150-51, VI p. 171, VII p. 145.

4 : *Gazette of India,* 31 March 1888 (Supplement), B.P. I, p. 378.

5 : P.P.H C 1875, cd. 406, p. 64, table 35; Fin. Progs. June 1871, Sep. Rev. no. 80; P P.H.C. 1871, vol. 8, cd. 363.

6 : P P.H C. 1875, cd. 406, p 49, table 4; annual Financial Abstracts, L.C.A. Progs. (new series) I-XI.

7-8 : L. C. Progs. (old series) VI-VII & L. C. A. Progs (new series) I-XI Financial Abstracts; Fin. Progs. Aug. 1875, nos. 19-27; P.P.H.C. 1875, cd. 406 M.M P.R. 1873-74, pp 49-50; *Statistical Abstracts of British India* (London, 1873).

9-11: P.P.H C. 1876, vol. 77, p. 265, table 22; P.P H C. 1874, vol. 70, p. 11, table 6; P.P.H C. 1870, vol. 68, p. 225.

12-14 : P.P.H.C. 1868-69, vol. 63, p. 38, table 41; ibid. 1870, vol. 68, p 44, table 49; ibid. 1873, vol 69, p 290, table 55; data on area and population derived from P P H C. 1873, vol. 50, cd. 172, p 147, M M P.R. 1871-72

15 : P.P H.C. 1876, vol. 77, pp. 342-43, table 82.

16-17 : P.P.H.C. 1868-69, vol. 63, p 34, tables 32-33; ibid. 1870, vol 68, p. 256, tables 40-41; ibid. 1871, vol. 69, p. 158, table 28; ibid. 1873, vol. 69, pp. 55-56, table 45, pp. 277-78; ibid. 1874, vol. 70, p. 70, table 57; ibid. 1876, vol. 77, pp. 340, table 81; loc. cit. pp. 342-3, table 82.

18-20 : P.P H C. 1860, vol. 49, cd. 339, p. 99; ibid. 1885, cd 352, pp. 212-16 et seq.; Financial Abstracts (annual), L. C. A. Progs. (new seriee), I-XI; *Statistical Abstracts.*

21 : P.P.H.C. 1873, vol. 69, p. 283, table 56; ibid. 1871, vol. 69, p. 163, table 32; ibid. 1870, vol. 68, p. 261, table 45; ibid. 1868-69, vol. 63, p. 39, table 37.

TABLE 1.1

Public Income: the Principal Constituent Items as percentage of Total Gross Revenue of the Govt. of India, at Intervals, 1858-59 to 1871-72.

	1858-59 %	1860-61 %	1865-66 %	1869-70 %	1870-71 %
Land revenue	50.3	43.1	41.8	41.4	40.1
Opium	17	16 6	17.4	15.6	15.7
Salt	7.2	8 9	10.9	11.6	11.9
Customs	8	9.7	4 7	4 8	5.1
Excise	4.1	4.1	5.3	5 4	5.5
Income/License Tax	0.3	2.6	1.4	2.2	4
Stamps	1 6	2.8	4.1	4.7	4.9
Post Office	1.6	1.4	0.8	1.4	1.6
Public Works receipts	1.8	2	1.9	1.9	1.8
Tribute	1 6	1.8	1 5	1.5	1.4
Others heads	6.5	8	10 2	9.5	8

Notes: Based on Table 2 infra. There are no transfers of component items from one Head of Revenue to another.

TABLE 1.2

Public Expenditure: the Principal Constituent Items as percentage of total Gross Expenditure of the Govt. of India, at Intervals.

	1863-64 %	1865-66 %	1869-70 %	1871-72 %
Army	32.6	36.3	30.6	32.3
Revenue collection charges	21 1	18.5	17 3	17.5
Law & Justice	4 8	5.3	5.4	4.7
General Administration	2.2	2 7	2 7	3.7
Superannuation allowance	2.1	2	2.5	2 9
Furlough allowance	0.2	0.2	0 3	0.4
Public Works (ordinary)	12	10.9	10	5.3
Political Agencies	0.5	0.5	0.8	0.7
Debt charges	11.2	11.1	11.5	12.3
Other heads	13.3	12 5	18 9	20.2

NOTES: Based on Table 11 infra. There are no transfers of component items from one Head of Expenditure to another except for the separation of Public Works 'Extraordinary' from Public Works 'Ordinary from 1869-70 (vide pp. 118-20 supra and Table 11, columns 12-14).

TABLE 1.3

Gross Revenue and Expenditure of the Govt. of India in India and in England 1858-59 to 1871-72.

	Gross Revenue	Gross Expenditure	Finance Members	Date of Budget Statement
1859	36.06	51.06	..	..
1860	39 71	51 86	..	..
1861	42.9	48.15	James Wilson	18 Feb. 1860
1862	43.83	44.87	Samuel Laing	27 Apr. 1861
1863	45 14	44.05	Samuel Laing	16 Apr. 1862
1864	44.61	44.53	C. E. Trevelyan	30 Apr 1863
1865	45 65	45.85	C. E. Trevelyan	7 Apr. 1864
1866	48.94	46.17	C. E. Trevelyan	1 Apr. 1865
1867	42.12	44 64	W N. Massey	24 Mar. 1866
1868	48.53	50.14	W. N. Massey	5 Mar. 1867
1869	49.26	53.41	W. N Massey	14 Mar. 1868
1870	50.9	53.38	Richard Temple	6 Mar. 1869
1871	51.41	51.1	Richard Temple	2 Apr. 1870
1872	50.11	48.61	Richard Temple	9 Mar. 1871

Notes: There are errors in the published statements relating to the Expenditure of the Govt. of India due to (a) variations in format in the different editions of *Statistical Abstracts*, (b) varying principles applied from year to year by the compilers in the India Office of statistics for presentation in Parliament, and (c) the marvellous legerdemain of some Finance Members in the matter of showing a surplus where none existed. The published Regular and Actual Estimates made by Wilson and Laing were subsequently revised; such revision was not uniformly made in the cases of territorial changes (e.g. separation after 1866-67 of accounts of Straits Settlements and Hyderabad assigned districts), transfer of components from one Head of Expenditure to another, or the transfer of expenditure for 'Extraordinary' Public Works from revenue to capital account (from 1868). Revision in the interests of uniformity particularly affects the years before 1866-67 when principles of accounting were undergoing rapid change.

TABLE 2

Gross Revenues and Receipts of the Govt. of India in India and England (1857-58 to 1872-73): Principal constituent items.

In Rs. Crores (Rs. 0,000,000)

	(2) Land Revenue	(3) Tributes	(4) Excise & Forest	(5) Income & License Tax	(6) Customs	(7) Salt
1858	15.32	0.58	1.22	0.11	2.15	2.13
1859	18.12	0.56	1.47	0.11	2.87	2.60
1860	18.76	0.79	1.7	0.22	3.87	2.93
1861	18.51	0.78	1.78	1.1	4.16	3.81
1862	19.68	0.78	2.25	2.05	2.88	4.56
1863	19.57	0 73	2.47	1.88	2.46	5.24
1864	20.30	0.72	2.36	1.48	2.38	5 03
1865	20 09	0.68	2 58	1.28	2.29	5.52
1866	20.47	0 71	2.61	0.69	2.28	5.34
1867	19.14	0 63	2.43	0 02	2.03	5.35
1868	19.99	0 69	2.57	0.65	2.58	5.73
1869	19.93	0 69	2.69	0.51	2.69	5 59
1870	21.09	0 76	2 72	1.11	2.43	5.89
1871	20.62	0.72	2.83	2.07	2.61	6.11
1872	20 52	0 74	2.87	0.82	2 58	5 97
1873	21.35	0 74	2 89	0 58	2 65	6.17

TABLE 2 (*contd.*)

	(8) Opium	(9) Stamps	(10) Mint	(11) Post Office	(12) Tele-graph	(13) Law (Court fees, fines etc.)
1858	6.86	0.46	0.36	0.39	...	0.3
1859	6.15	0.59	0.25	0.59	.	0.4
1860	5.89	0.74	0.39	0.66	...	0.44
1861	6.68	1 18	0.29	0.61	0.05	0.42
1862	6.36	1.17	0 38	0.4	0.07	0.51
1863	8.06	1.49	0.37	0.43	0.08	0.49
1864	6.83	1.74	0.37	0.46	0.09	0.63
1865	7.36	1.97	0.38	0.36	0 1	0.68
1866	8.52	1.99	0.49	0.41	0.19	0 79
1867	6 8	1.8	0.24	0 5	0 22	0 82
1868	8.92	2.19	0 12	0.66	0.24	0.95
1869	8.45	2 31	0.19	0.71	0 27	1.17
1870	7.95	2.38	0.16	0.71	2.25	1.09
1871	8.04	2 51	0.03	0.81	0.24	1.02
1872	9.25	2.48	0.09	0.82	0 23	0.4
1873	8 68	2 61	0.05	0.58	0.25	0.4

TABLE 2 (*concluded*)

	(14) Public Works Receipts	(15) Army	(16) Marine	(17) Interest on Loans & Advances	(18) Total Gross Income
1858	0.48	...	0.18	...	...
1859	0 65	..	0 17	...	36.06
1860	0.72	...	0 21	...	39.71
1861	0.85	..	0 28	...	42.9
1862	0 59	..	0 16	...	43.83
1863	0.44	...	0 19	..	45.14
1864	0.46	0 75	0.31	0.07	44 61
1865	0.59	0 74	0.31	0.25	45.65
1866	0.92	0.73	0 2	0.22	48 94
1867	0.54	0 74	0.23	0.23	42 12
1868	0 56	0.76	0.46	0.21	48 53
1869	0.55	1 13	0 69	0.22	49 26
1870	0.96	1.08	0 33	0.34	50.9
1871	0.92	0.96	0.33	0 34	51 41
1872	0.83	0 94	0 2	0.36	50 11
1873	0.79	0.91	0 21	0.51	50.22

Notes: (a) Col. 3: Tributes and contributions from Native States under treaty arrangements. (b) Col. 5: For details on these taxes see table on pp. 211-12 above. (c) Col. 14: Comprises of receipts from Railways and irrigation works. (d) Cols. 15 & 16: Includes Sale of Stores, Stoppages, Discharge Purchase money, and under 'marine' Pilot Dues. (e) Col. 17: This item was insignificant until a regulation was passed requiring Railway Companies to pay interest on advances they received from the Government. (f) Col. 18: The total includes numerous other items (College Fees, Subscription to Benefit Funds and Miscellaneous items); the principal Heads of Revenue and Receipt are itemised above.

TABLE 3

Opium Revenue:

Average price, rate of duty and volume of trade 1857-72

	(2) Average price of Bengal opium (Rs.)	(3) No. of chests (Bengal) in thousands	(4) Rate of Duty of Malwa opium (Rs)	(5) No. of chests (Malwa) in thousands	(6) Gross Opium Revenue (Rs Crores)
1857	890	42.3	400	29.2	5
1858	1290	40.1	400	39 7	6.86
1859	1490	30 9	400	36.4	6.15
1860	1670	25.3	500	32.9	5 89
1861	1920	21.4	600	46 1	6.68
1862	1610	24.1	700	37.	6 36
1863	1430	32 8	600	51 2	8 06
1864	1220	42 6	600	25.7	6.83
1865	940	54.5	600	32 6	7.36
1866	1120	56.	600	36.1	8.52
1867	1250	38.7	600	30.6	6.8
1868	1330	48	600	39 1	8.92
1869	1380	47 2	600	31.	8 45
1870	1200	45 7	600	39 4	7 95
1871	1120	49	600	39.5	8.04
1872	1390	49 7	600	38 8	9 25
1873	1390	42.7	600	44.	8.68

Notes: Col. 2 indicates the annual average price per chest of Bengal opium at Calcutta and Col. 4 the rate of duty on each chest opium at Indore (i.e. duty on Malwa opium passing to Bombay). The new rates of duty became effective in 1859-60 on 1 July 1859, in 1860-61 on 1 Sept. 1860, in 1861-62 on 1 Oct. 1861, and in 1862-63 on 1 Oct. 1862.

TABLE 4

Gross Land Revenue in the Principal Provinces/Presidencies: 1856-57 and 1870-71

In Rs Crores (Rs 0,000,000)

	1856-57	1870-71	Percentage of increase
Bengal	3.54	3 76	6
Bombay	2 15	2.95	37
Madras	3 8	4.4	16
Punjab	1.84	1 97	7
N. W. Provinces	3.92	4 13	5
Oudh	0.97	1.32	36
Central Provinces	0.57	0 6	5

Notes: Figures for Assam, Lower Burma and minor provinces are excluded from this table. This estimate, published by the Government of India in 1888, was a crude one but it has its uses; possibly the government policy in the matter of allocation of public works investments was influenced by the experience and expectation of larger returns from certain regions.

TABLE 5

Gross Revenue derived from Salt: the import duty, inland customs duty, and selling price, 1856-57 to 1871-72.

R. 1 = 16 annas = 2 shillings

Col. 7 in Rs. Crores (Rs 0,000,000)

	(2) *Bengal* Customs duty per maund	(3) *Madras* Selling price per md	(4) *Bombay* Duty per md	(5) *Punjab Mines* Selling price per md	(6) *Inland Customs* Duty per md.	(7) *Gross Revenue in India*
	Rs.–as.	Rs.–as.	Rs.–as.	Rs.–as.	Rs –as.	Rs. Crores.
1858	2–8	1–0	0–12	2–0	2–0	2.13
1859	,,	,,	,,	,,	,,	2 60
1860	3-0	1-2	1-0	2–2	2–8	2 93
1861	3–4	1–6	1–4	,,	3–0	3.81
1862	,,	1–8	,,	3–0	,,	4.56
1863	,,	,,	,,	,,	,,	5.24
1864	,,	,,	,,	,,	,,	5.03
1865	,,	1–11	1–8	,,	,,	5.52
1866	,,	,,	,,	,,	,,	5.34
1867	,,	,,	,,	,,	,,	5.35
1868	,,	,,	,,	,,	,,	5.73
1869	,,	,,	,,	,,	,,	5.59
1870	,,	2–0	1–13	,,	,,	5.89
1871	,,	,,	,,	3–1	,,	6.11
1872	,,	,,	,,	,,	,,	5 97

Notes: (a) Col. 2: the new rate of duty became effective in Dec. 1859 and in Mar. 1861. (b) The new (col. 3) selling prices noted in this column became effective in Aug. 1859, Apr. 1861, June 1861, Jan. 1865, and Oct. 1869. (c) The revised (Col. 4) rates of duty came into effect in Aug. 1859, Apr. 1861, Jan. 1865, and Oct. 1869. (d) Col. 5: selling price of Punjab salf was revised in the financial years noted above in Apr. 1860, Sept. 1861, and July 1870. (e) Col. 6: Inland Customs duty on salt was revised in Dec. 1859, and Mar. 1861 to the levels noted under this column.

TABLE 6

Overseas Trade and Customs Duty: 1857-58 to 1871-72

In Rs. Crores

	(2) Official Value of Commodities imported	(3) Gross Receipts from Import Duty	(4) Official Value of Commodities exported	(5) Gross Receipts from Export Duty
1858	15 28	0.74	27 46	0.29
1859	21.73	1.21	29 86	0.3
1855-59	15.58	...	24.92	..
1860	24.26	2.28	27.96	0.36
1861	23.49	2.48	32 97	0.54
1862	22.32	1.93	36 32	0.56
1863	22.63	1.54	47 86	0.61
1864	27 15	1.47	65.63	0.6
1860-64	23 97	..	42.15	...
1865	28.15	1.41	68.03	0 59
1866	29 6	1.48	65.49	0.49
1867	29 04	1.51	41.86	0.34
1868	35.71	1.83	50.87	0.52
1869	35 99	1.9	53.06	0.6
1865-69	31.7	...	55.86	..
1870	32.93	1.75	52.47	0.48
1871	33.41	1.76	55 33	0 64
1872	31.08	1 65	63.19	0.69
1870-74	32 26	...	56 24	...

Notes: (a) To indicate the broad trend, for the quinquennial periods 1854|55-1858|9, 1859|60-1863|64, 1864|65-68|69 and 1869|70-1873|74, annual averages are shown above. Cols. 3 & 5 do not include the large Inland Customs Duty receipts.

TABLE 7.1

Official Values of some Principal Exports: 1860-61 and 1870-71

	1860-61		1870-71	
	Value in Rs Crores	Ratio to value of total commodity exports %	Value in Rs. Crores	Ratio to value of total commodity exports %
Raw cotton	7.34	22 3	19 46	36.2
Raw Jute	0 41	1 2	2.58	4 7
Raw silk	1.04	3.1	1.26	2.3
Raw wool	0.48	1 5	0 66	1.2
Rice	2.96	9	4 15	7.5
Other Grains	0.39	1 2	0.32	0.6
Seeds	1.79	5 4	3.52	6.4
Hides	0.66	2	2 02	3.7
Oil	0.25	0 8	0 18	0.3
Indigo	1.89	5.7	3 19	5.7
Sugar	0.99	3	0 24	0.4
Coffee	0.34	1	0.8	1.4
Tea	0.15	0.5	1 12	2
Saltpetre	0.66	2	0 44	0.8
Mfred. Jute	0.36	1.1	0 34	0.6

TABLE 7.2

Official Values of some Principal Imports : 1860-61 aad 1870-71

	1860-61		1870-71	
	Value in Rs Crores	Ratio to value of total commodity imports %	Value in Rs Crores	Ratio to value of total commodity imports %
Cotton piece goods	9.31	39.6	15.64	46.8
Cotton twist, thread, yarn	1.75	7.4	3 4	10.2
Silk goods	0.26	1.1	0.43	1.3
Woollen Goods	0 22	1	0 58	1 7
Machinery	0.87	3 7	0.45	1.3
Rly Materials	1 9	8.1	1.47	4 4
Metals (mfrd. & un-mfrd)	2 12	9	1.86	5 6
Malt liquor	2 89	12.3	1 37	4 1
Spirits	0 41	1 7	0 46	1.4
Wines/liquors	0 35	1 5	0.49	1.5
Sugar	0 22	1	0.36	1 7

TABLE 8 1

Imports of Cotton Twist, Thread and Yarn 1857-58 to 1871-72

	Quantity Lbs '000,000	*Official Value* Rs. Crores	*Rate of duty*		*Revenue* Rs. Lakhs
1858	17.7	0 94	3½% British :	7% Foreign	3.7
1859	31 1	1.71	,,	,,	6.6
1860	31 5	2 05	5%		11.8
1861	20 9	1.75	10%		17.5
1862	23.9	1.47	5%		7.5
1863	19.5	1.27	Twist 3½%,	Thread etc. 10%	4 6
1864	19.6	1.53	,,	,,	4.5
1865	17 9	2 19	Twist 3½%,	Thread etc 7½%	7 2
1866	16 9	1 96	,,	,,	6.8
1867	30 9	2 57	,,	,,	9.1
1868	26.7	2 7	,,	,,	9 6
1869	29.	2.78	,,	,,	10
1870	32	2 72	,,	,,	9 5
1871	40 4	3 4	,,	,,	10 2
1872	28 9	2 47	,,	,,	18 6

Note : Col. 5 includes duty paid on 'other sorts' of cotton manufactures i.e. goods which did not come under the customs categories, 'piece goods, twist, thread and yarn.'

TABLE 8.2

Cotton Piece Goods Imported: Official Value and Customs Duty, 1857-58 to 1871-72

	Official Value in Rs Crores	Rate of Customs Duty	Revenue in Rs. Lakhs
1858	4.78	British 5%, Foreign 10%	24 2
1859	8 09	" "	46.7
1860	9 65	10 per cent.	96.1
1861	9.31	"	92 8
1862	8.77	"	85.9
1863	8.36	5 per cent.	42.7
1864	10 42	"	41.2
1865	11.04	"	50.4
1866	11.85	"	57 8
1867	12 52	"	63.6
1868	15	"	75.2
1869	16 07	"	80 1
1870	13.65	"	67 7
1871	15 64	"	79.6
1872	15 01	"	75.4

Notes: (a) The sudden fall in customs revenue from this source in 1869-70, Col. 4, was due to reduced valuation. (b) Col. 2: The official value is a very imperfect index of volume; since the goods were entered under various denomonations, the total quantity of piece goods imported is not available.

TABLE 9

Gross Revenue and Receipts of the Govt. of India in the principal Provinces/Presidencies (1858-59 to 1871-72)

In Rs Crores (Rs 0,000,000)

	(2) Bengal	(3) North Western Provinces	(4) Punjab	(5) Madras	(6) Bombay	(7) Total Gross Revenue
1859	12.47	5.47	2 9	6.26	6.2	36.06
1860	12.8	5.71	3.06	6.55	7.28	39 71
1861	14.09	5.92	3.48	6.67	8.41	42 9
1862	13 76	6 65	3 1	7 01	8 51	43.83
1863	14 63	5 73	3.04	6.93	9.56	45.14
1864	15 01	5.46	3.19	7 03	8.22	44 61
1865	14 89	5 5	3 18	7 01	9.39	45.65
1866	15.48	5 69	3.22	7 06	9.53	48.94
1867	13.61	5 36	3.25	6.25	7 86	42.12
1868	16.77	5 88	3 46	7.51	9.28	48 53
1869	16 53	5 82	3 43	7 51	9 44	49 26
1870	15 77	6 06	3.79	8 08	9 9	50.9
1871	16 32	6 2	3 85	8.21	10 09	51 41
1872	16 74	5.77	3 63	8 09	9 1	50 11

Notes : (a) Col. 7 : The total for all India was shown in the accounts till 1865-66 and receipts in England were set off in reduction of expenditure in England. Receipts from this source and other minor heads (Oudh, British Burma, Central Provinces, Straits Settlements, and certain territories directly under the Govt. of India) are not shown in the accounts in a continuous and comparable form,

TABLE 10

Gross Expenditure of the Govt. of India in the principal Provinces/Presidencies (1858-59 to 1871-72)

In Rs. Crores (Rs. 0,000,000)

	(2) Bengal	(3) North Western Provinces	(4) Punjab	(5) Madras	(6) Bombay	(7) Total Gross Expesditure in India
1859	4.31	2 69	2.03	7 51	8 16	43.59
1860	4 2	3.16	2.12	8 05	9.51	44 62
1861	4.53	3.41	2 15	7.25	7 71	40.41
1862	4 84	2.47	1.68	7.06	6 31	37 25
1863	4.94	2 06	1 62	6.58	6.67	36.8
1864	5.87	2.09	1.55	6.28	7.26	38.09
1865	6 03	2.24	1 8	6.46	7.69	39.45
1866	5.32	2.13	1 65	6.71	7 92	41.12
1867	4 99	2.35	1 89	6 18	7.52	37 09
1868	6.21	2.57	2 11	6.73	8.52	41 65
1869	6 34	2.95	2.37	6 6	8 44	43.23
1870	6.89	2 95	2 22	6 6	8.29	42.79
1871	6.31	2 68	2.13	6.15	8 15	41 02
1872	5 66	2.45	2.06	5 83	7.23	38 76

Notes: Col. 7 shows the gross expenditure in India and excludes expenditure incurred in England. The published accounts were somewhat peculiar in that only the total for all India was shown in the accounts (till 1865-66) while receipts in England were set off in reduction of expenditure in England; see below table on disbursements in England. Expenditure in Oudh, British Burma, Central Provinces, the Straits Settlements and certain territories directly under the Govt. of India are not shown in the accounts in this period in a continuous and comparable form.

TABLE 11

Gross Expenditure of the Govt. of India in India and in England: Principal constituent items (1863-64 to 1872-73)

In Rs Crores (Rs. 0,000,000)

	(2) Army	(3) Cost of Revenue Collection, Refunds etc.	(4) General Administ-ration	(5) Law & Justice	(6) Superannu-ation Allowances	(7) Civil Furlough	(8) Political Agencies	(9) Provincial Services	(10) Marine
1864	14.51	9.38	0 98	2 12	0.9	0.07	0 23	2.82	0.63
1865	15 77	9 05	0.97	2.26	1.27	0.07	0.29	2 96	0.64
1866	16 75	8.53	1.25	2.42	0 91	0 08	0.25	3.25	0 63
1867	15 83	7 64	1.27	2.39	0.77	0 08	0.27	3.24	0 77
1868	16 1	8.96	1.32	2.54	1.16	0.1	0 28	3 48	1.09
1869	16 27	9 25	1.4	2.85	1 75	0.12	0 35	3.71	1.14
1870	16 33	9 23	1 43	2 9	1.33	0.16	0.41	3 68	1.29
1871	16 07	9.27	1.57	2.99	1 45	0.18	0.35	3.5	0 76
1872	15.68	8.52	1 78	2 27	1.45	0.17	0.32	4 85	0.57
1873	15 5	8 89	1 89	2 22	1.58	0 16	0.39	5.22	0 56

Notes: (a) Col. 3: Cost of revenue collection is compounded with revenue refunds and assignments under treaties with native rulers. (b) Col. 6 includes compassionate allowances. (c) Col. 9: After the implementation of Mayo's Decentralisation Scheme in 1871-72 funds were annually allotted for 'Provincial Services': Police, Education, Stationery & Printing, and minor Medical and Public Works charges. The accounts of

TABLE 11 (*concluded*)

	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
	Medical	Public Works	Public Works (Extraordinary)		Private Guaranteed Rlys.	Debt Charges	Loss by Exchange	Total Gross Expenditure
			Irrigation	State Rly				
1864	0 13	4 92	.	..	2 12	4.97	0 01	44.53
1865	0 13	4 61	.	.	2 11	4 99	0.04	45 85
1866	0 27	4 78	..		0 34	5 13	0 08	46.17
1867	0 26	5.03	..	..	1.1	4 89	0 16	44 64
1868	0 35	5 62	0 22	.	1.8	5 73	0.12	50 14
1869	0 38	6 27	0 47	0 55	2 01	5 65	0 19	53 41
1870	0.44	5 03	2.01	0.19	1 86	5 61	0.2	53.38
1871	0 52	3 95	0 72	0 45	2 1	5.84	0 47	51 1
1872	0 17	2 46	0.98	0.64	1.85	5 97	0 4	48 61
1873	0 18	2.53	0 77	1.41	2 29	5.86	0 76	50 64

previous years were accordingly recast. For 'education' expenses see Table 20 below. A crude estimate of expenses for 'Police' is possible for the period before financial decentralisation (in Rs. Crores):

1864	2 5	1868	2 9
1865	2 6	1869	3 1
1866	2 8	1870	3
1867	2 8	1871	2.8

(d) Col. 13: the term 'extraordinary' is explained in Chapter III pp. 118-20 above. (e) Col. 18: The total includes numerous other items (e.g. Ecclesiastical establishment, stores not included in departmental accounts, and the head 'Miscellaneous' which often conceals many leaks); this table itemises the principal Heads of Charge. (f) Col. 17: The jargon about loss by exchange is explained above, p. 260. (g) Col. 16 includes dividends to proprietors of East India Stock.

TABLE 12.1

Some Major Heads of Charge in Public Works Department: Public Works 'Ordinary' 1857/58-1871/72

In Rs. Crores (Rs. 0,000,000)

	Total Gross Expenditure	Military Buildings & Roads	Civil Buildings	Roads, Irrign & Public Improvements	Establishments, Tools & Plants
1858	1.52	0.83	N.A.	0.65	N.A.
1859	0.41	0.33	N.A.	0.08	N.A.
1860	3.22	1.24	0.24	1.08	0.67
1861	3.37	0.90	0.39	1.42	0.66
1862	3.4	0.54	0.29	1.85	0.72
1863	3.93	0.61	0.42	1.62	0.74
1864	4.92	0.71	0.62	2.31	0.82
1865	4.61	0.86	0.72	2.13	N.A.
1866	4.78	1.08	0.74	1.86	0.99
1867	5.03	1.54	0.75	1.86	0.81
1868	5.62	1.74	0.85	1.76	1.07
1869	6.27	2.13	0.84	1.88	1.27
1870	5.03	1.45	0.68	1.55	1.12
1871	3.95	0.99	0.51	1.32	1.08
1872	2.46	0.98	0.21	0.61	0.61

Notes: This statement excludes expenditure on guaranteed Railways and State Railways, and, of course, the 'Extraordinary Public Works' i.e. those financed with loans (vide Table 11, cols. 12-15). Figures relating to the years 1857/58-1861/62 in Cols. 3-6 indicate amounts sanctioned for expenditure which approximated closely to actual expenditure incurred but cannot be assumed to be exactly the same. Figures relating to the year 1872 exclude grants made for 'Provincial Services' (Rs. 44 lakhs under col 4, Rs. 64.6 lakhs under Col. 5, and Rs. 33 lakhs under Col. 6), as a result of financial decentralisation.

TABLE 12 2

Public Works (Ordinary) Expenditure in the Principal Provinces/Presidencies as percentage of the Total in India

	1864-66 %	1867-69 %	1870-72 %	1871-72 Expenditure on P.W (ordinary) per head of population (Rs.)
Bengal	17	15 7	16 8	0 103
N. W Provinces	12.9	13.3	13.5	0 19
Punjab	11 9	14.2	13.3	0.34
Madras	13 9	13.8	12 2	0 106
Bombay	24	20.4	,8.4	0 53

Notes: It is to be noted that the above Table relates to the 'ordinary' public works and excludes 'extraordinary' works: this is to be emphasised particularly with reference to Col. 5. It is certain that if 'extraordinary' works, guaranteed railways, and state railways are taken into account together with the expenditure on 'ordinary' public works, a more favourable picture emerges; but rough estimates indicate that the pattern of distribution (i e. the proportion of expenditure in each province to the total) would roughly be the same. Such an estimate can only be approximate (and, therefore, has not been presented in a tabular form) because the classification of many works were sometimes altered from 'ordinary' to 'extraordinary' or vice versa, net expenditure on some works are available but not the gross expenditure, and province-wise classification is not available for some types of works other than the 'ordinary' ones. The accuracy of area and population figures in the M.M.P.R. of 1871-72 (P.P.H.C. 1873 vol 50, cd 172, p 147) is obviously not absolute. On the basis of available data no long-period comparison of public works investments was attempted (for the period 1898-1914 there is an excellent study by M. K. Thavaraj, vide Bibliography.)

TABLE 13

Some Major Heads of Charge in Public Works Department : Railways and 'Extraordinary' Public Works

In Rs Lakhs (Rs. 00, 000)

	Railways (Ordinary)				Public Works (Extraordinary)			
	Total Railways (Ordinary)	Supervision & Land	Guarantd Interest (Net)	Loss by Exchange	Total	State Railways	Irrigation	Bombay Special Fund
1866	34 3	22.5	6.7	5.1	. .	...	...	...
1867	110 2	25.9	73 1	11.2	. .	....	. .	...
1858	179 9	15 6	154	10.2	60 2	0 01	21 9	38.3
1869	201.2	26 1	170	2.1	137 1	55 2	46.9	34.9
1870	185 7	9 1	154 7	20.5	259 9	19.1	200.7	40.1
1871	210.3	8 3	183.4	17 1	116 8	44.9	71.8	...
1872	185 1	6 6	172.3	5 3	162 8	64.4	98.3	. .

Notes : This statement commences from the period when accounts of Railways and Extraordinary Public Works were separated from Ordinary Public Works and accounts were recast. The 3rd col. relates to cost of land for railway lines and supervision : the 4th col. to the excess of guaranteed interest over railway traffic receipts. The 7th col relates to the State Railways of Northern Bengal, Nulhati, Punjab Northern, Indus Valley, Rajpootana, Neemuch, Holkar, Warda Valley, Hoobli & Curwar and Calcutta & South-Eastern Rlys.

TABLE 14

Public Works Expenditure: Regional distribution 1857/58-1871/72: Expenditure on 'Ordinary' Public Works in the Principal Provinces/Presidencies

In Rs. Lakhs (Rs. 00,000)

	(2) Total Gross Expenditure	(3) Bengal	(4) North Western Provinces	(5) Punjab	(6) Madras	(7) Bombay
1858	151 9	23.5	99 4	4.1	1.5	12.3
1859	41.1	7.4	14.7	0.8	0.4	0.3
1860	322 2	39 2	62 4	39.9	65.4	47 6
1861	337.1	51 4	61	51	62	50.5
1862	339.7	51	63	54	66	52.5
1863	356 5	51.8	60 1	51	69.5	57 9
1864	492 1	96	65 8	52.5	66.2	121.9
1865	461.3	76.4	60.5	57 7	70.5	104.7
1866	478 4	72.1	59 2	57.3	63 6	118 2
1867	502.5	69.4	69	71.3	62.5	132 2
1868	562.2	86.3	62 7	78 9	82.2	105 2
1869	627.2	100 8	86	81.7	79 9	94 6
1870	503.4	86.6	65.9	60.9	65.8	84 6
1871	394.6	61.6	49 7	49 2	58.1	77 8
1872	245.9	39 7	35 4	34.4	24 3	46 4

Notes: Territories not itemised here are Oudh, the Central Provinces, British Burma, the Eastern Settlements (up to 1866/67), and territories directly under the Govt. of India; expenditures in these regions are included in the 2nd column. The figures relating to 1871/72 exclude allotments to 'Provincial Services' (total of Rs 1, 417,571: for Bengal Rs 289,528; for N.W.P. 225, 600: for Punjab 260,757; for Madras 88,858; and for Bombay 280,401). Statements for the years before 1863 relate to sanctions & approximate closely to actual expenditure but are not exactly the same as actual. From 1864 the accounts were recast and the figures show the actual expenditure. Figures for 1857-58 relate to actual expenditure from 1 May 1857 to 31 Decr. 1858, and those for 1858-59 to the period 1 Jan. to 30 Apr. 1859 only.

TABLE 15

Detailed Breakdown of Military Expenditure, at Intervals: 1865-66, 1869-70, & 1871-72. (Proportion of expenditure on each item to total military expenditure in parenthesis)

In Rs. Lakhs (Rs. 00,000)

	1865-66		1869-70		1871-72	
	Rs Lakhs	% of Total	Rs Lakhs	% of Total	Rs Lakhs	% of Total
1. Army & Garrison Staff	49	(2.9)	52	(3.2)	46	(3)
2. Administrative Staff	20	(1.2)	20	(1.2)	20	(1.3)
3. Regimental Pay	684	(40 9)	666	(40 8)	650	(41.5)
4. Establishments of :	...	.	.		...	..
a. Commissariat	313	(18.7)	243	(14 9)	193	(12.3)
b Stud & Remount	19	(1.1)	25	(1.6)	18	(1.1)
c. Clothing	15	(0.9)	11	(0.7)	12	(0 8)
d Barracks	33	(2)	35	(2.2)	34	(2.1)
e Martial Law	4	(0 3)	4	(0.3)	5	(0 3)
f Medical Dept.	44	(2.6)	46	(2.8)	42	(2.7)
5. Ordnance/Equipage	45	(2.7)	54	(3 3)	60	(3.8)
6 Sea transport	34	(2)	15	(0.9)	11	(0.7)
7. Miscel Services	57	(3 4)	47	(2.8)	49	(3 2)
8. Pensions (Non-effective)	117	(7)	64	(3 9)	63	(4)
9. Total in India	1436	(85.7)	1282	(78.6)	1203	(76.8)
10 Charges in England :	.		.	.	.	.
a Stores	N A.	(N.A.)	88	(5.4)	94	(6)
b. Effective charges	128	(7.6)	142	(8.7)	132	(8 4)
c Non-effective charges	111	(6 6)	119	(7 3)	138	(8 8)
11. Total in England	239	(14.2)	350	(21 4)	364	(23.2)

TABLE 16.1

Total number of Troops Employed in British India

		Indian Forces		Total		
	Royal Troops, European	Europeans	Natives	Europeans	Natives	Grand Total
1859	86,186	20,104	196,243	106,290	196,243	302,533
1860	72,158	20,708	213,002	92,866	213,002	305,868
1861	62,120	22,174	184,672	84,294	184,672	268,966
1862	67,545	10,629	125,913	78,174	125,913	204,087
1863	71,074	5,001	121,775	76,085	121,775	197,860
1864	70,674	4,287	121,060	74,961	121,060	196,021
1865	65,901	5,979	118,315	71,880	118,315	190,195
1866	62,451	4,363	117,095	66,814	117,095	183,909
1867	61,498	3,969	117,681	65,467	117,681	183,148
1868	58,288	3,609	119,169	61,897	119,169	181,066
1869	60,969	3,889	120,000	64,858	120,000	184,858
1870	59,487	3,452	117,881	62,939	117,881	180,820

TABLE 16.2

Total number of Troops employed in each Presidency of British India distinguishing Europeans and Natives

	Bengal			Madras			Bombay		
	European	Native	Total	European	Native	Total	European	Native	Total
1859	62,167	82,687	144,854	17,091	67,141	84,232	27,032	46,415	73,447
1860	57,778	91,998	149,676	17,851	78,440	96,291	17,237	42,664	59,901
1861	51,791	86,620	138,411	18,257	63,727	81,984	14,246	34,325	48,571
1862	47,912	39,210	87,122	16,421	55,687	72,108	13,841	31,016	44,857
1863	46,614	40,945	87,559	15,113	50,964	66,077	14,358	28,866	43,224
1864	45,283	42,938	88,221	15,583	50,131	65,714	14,095	27,991	42,086
1865	42,128	43,796	85,924	16,002	46,693	62,695	13,750	27,826	41,576
1866	38,992	43,394	82,386	14,184	46,435	60,619	23,638	27,266	40,904
1867	38,029	44,428	83,457	13,511	46,046	59,557	12,927	27,207	40,134
1868	35,125	45,758	80,883	12,145	45,961	58,105	14,627	27,450	42,077
1869	39,249	46,112	85,361	12,939	45,681	58,620	12,670	28,207	40,877
1870	38,106	44,642	82,748	13,650	45.744	59,394	11,183	27,495	38,678
1872	40,698	63,170	103,868	13,471	32,434	45,905	12,506	26,764	39,270

Note : Statistics of the year 1870-71 are not available.

TABLE 17

Gross Military Expenditure in each Presidency and Payments in England

In Rs Crores (Rs. 0,0000,000)

	Govt. of India	Madras Presidency	Bombay Presidency	Payments in England	Total Gross Expenditure
1864	7.16	3 06	2 47	1.81	14.51
1865	7.49	3.26	2 75	2.28	15.77
1866	8.15	3.34	2 87	2.39	16 78
1867	6 72	3.08	2 64	3.38	15 82
1868	6 75	3.07	2 78	3.5	16.1
1869	7 01	3.02	2 96	3.28	16.27
1870	6.97	2 99	2 86	3 5	16 33
1871	6.51	2 91	3 12	3.52	16 07
1872	6.54	2.85	2 64	3.64	15 68

Notes: (a) Col. 2: Expenditure in Bengal Presidency is included in this column. (b) Col. 5: Receipts in England amounting to Rs. 24.9 lakhs in 1863-64, Rs. 1.1 lakhs in 1864-65, and Rs. 4.2 lakhs in 1865-66 are shown in these accounts in reduction of payments in England in those years.

TABLE 18

Amount of the Unredeemed Public Debt of British India at the end of each Financial Year 1858-59 to 1872-73

In £ 000,000 sterling *£ 1 = Rs. 10*

Year ended :	1859	1860	1861	1862	1863	1864	1865	1866
Debt in England :	15.09	26.14	29.98	35.1	31.84	26.31	26 12	26.95
Total :	81.17	98.11	101.88	107 51	104.5	98.52	98.48	98.38

Year ended :	1867	1868	1869	1870	1871	1872	1873
Debt in England :	29.54	30.7	31 7	35.2	37.63	39.01	39.01
Total :	102.06	101 99	102 87	108.19	119.0	121 77	121.5

Note: The East India Stock of £ 12 m. is not included in the statement; charges on this account, 'Dividends to Proprietors of E.I. Stock', are included in the statement on Debt Charges in Table 11, col. 16.

TABLE 19

Interest annually paid to Guaranteed Companies 1860-61 to 1871-72

In £ 000,000 sterling *£ 1 = Rs. 10*

Year ended :	1861	1862	1863	1864	1865	1866
Amount :	1.48	1.78	2.17	2.46	2.69	2 9
Year ended :	1867	1868	1869	1870	1871	1872
Amount :	3.04	3.49	3.91	4.13	4.35	4.5

TABLE 20

Net Disbursements of the Govt. of India in England: the principal constituent items and modes in which disbursements were provided for

In £ 000,000 sterling *£ 1 = Rs. 10*

Net Disbursements:

	(2) Total	(3) Debt charges	(4) Stores for India	(5) Service of Br. Troops	(6) Br. Troops' Passage
1857	4.43	0 89	1.03	0.29	0 05
1861	8.12	1.85	1.29	1.46	0.37
1862	11.17	2.13	1.12	1.33	0.15
1863	8.63	2.2	0.7	0.92	0.14
1864	11.86	2 08	0.41	0.58	0.17
1865	7.47	1.93	0.71	1.03	0.18
1866	9.11	1.95	1.28	0.85	0.46
1867	9.2	1.97	1 16	0 89	0 85
1868	8.09	2.15	1.15	0.97	0 58
1869	9.11	2 16	1.63	0.85	0 44
1870	12 01	2.21	1.67	0.95	0.28
1871	11 57	2 35	1 58	0.9	0 31
1872	12.2	2 44	1 41	1 07	0 27

Notes: Col. 5 relates to Home Charges for the service of British Forces stationed in India and Col. 6 to the cost of passage of those troops to and from India. For an explanation of these and other items see pp. 256-260 above.

TABLE 20 (*contd.*)

	(7) Indian Officers' Furlough	(8) Indian Officers' Pensions	(9) Miscel Pensions	(10) Indian Provident Fund	(11) Home Admn.
1857	0.23	0.92	0.3	0.37	0.19
1861	0.3	0.91	0.38	0.44	0.18
1862	0.3	0.94	0.4	0.46	0.19
1863	0.27	1.13	0.48	0.45	0.17
1864	0.24	1.12	0.53	0.47	0.17
1865	0.24	1.09	0.37	0.48	0.17
1866	0.28	1.09	0.37	0.52	0.18
1867	0.3	1.06	0.32	0.43	0.19
1868	0.34	1.08	0.39	0.52	0.2
1869	0.38	1.07	0.29	0.56	0.21
1870	0.56	1.07	0.44	0.6	0.21
1871	0.65	1.06	0.38	0.62	0.22
1872	0.61	1.05	0.34	0.66	0.21

Notes: Col. 7 includes furlough and absentee allowances to officer on leave and in England. Col. 8 comprises pensions and annuities to retired servants of the Govt. of India, and gratuities and capital payments in lieu of pensions. Col. 11 relates to charges for the Secretary of State's salary, the salary of the Under-Secretary of State, members of India Council, establishment charges of India Office etc. Other than those shown here there were two interesting items: 'Debt redemption' accounted for £ 1.76 and £ 5.53 million in 1862-64; Interest payments to 'Guaranteed Companies' are shown in Table 19.

TABLE 20 (*concluded*)

Ways and means by which disbursements were met:

	(12) Total Disbursements	(13) Bills of Exchange	(14) Gtd. Cos. Net Rect.	(15) Repaymt. by Br. Govt.	(16) Indian Bullion Remittance	(17) Debt Incurred
1857	4 23	2.82	1.09	...	...	...
1861	8.12	...	1.95	0.92	...	3.71
1862	11.17	1 19	5 22	0 95	...	3.69
1863	8.63	6.64	1.26	0.24	...	...
1864	11.86	8.98	2.23	...	. .	. .
1865	7.47	6.79	.	...	. .	...
1866	9.11	6.99	. .	...	0.16	0.85
1867	9.2	5 61	..	. .	0.88	2.64
1868	8.09	4.14	1.37	0.03	...	1.16
1869	9.21	3 71	0.18	4 29	...	1 03
1870	12 01	6.98	.	1 35	..	3 54
1871	11.57	8.44	. .	0.13	0.57	2 42
1872	12.2	10 31	...	...	...	1.41

Notes: Col. 13 comprises Bills of Exchange and Telegraphic transfers of India drawn in London; this excludes bills on India drawn in China and bills on London purchased in India which were far less important. Col. 15 shows the repayments made by the British Govt. for the use of Indian troops in China and Abyssinia (for Abyssinia, only the excess of reimbursement over disbursements made in England on this account are shown). Col. 16 relates to bullion remittances to England from Indian Govt. and Col. 14 to net receipts from the guaranteed companies.

TABLE 21.1

Expenditure on Education 1857-58 to 1871-72

	(2) Number of Educational Institutions	(3) Average Attendance of Pupils (in thousands)	(4) Gross Govt. Exdenditure (Rs Lakhs)	(5) Total Expenditure from all Sources (Rs Lakhs)
1858	8070	151	23.15	N.A.
1859	12479	239	25.94	N.A.
1860	13550	306	23.34	31 54
1861	14322	333	23.54	36 39
1862	13219	351	24.83	28.41
1863	15159	396	27.45	40 26
1864	17058	474	31 99	49.78
1865	17813	448	40.7	64 46
1866	19463	593	44.56	74 62
1867	20683	659	46.14	75 55
1868	21549	675	53.76	89.68
1869	23300	758	59 16	100 97
1870	24274	789	63.75	107.07
1871	25147	800	64 97	107 94
1872	43192	977	68.58	108.34

Notes: (a) Col. 2 relates to educational institutions belonging to, aided or maintained by Government and Col. 3 the average number of pupils attending them. (b) Col. 5 includes expenditure on education from private as well as public sources of funds.

TABLE 21 2

Expenditure on Education: Government Expenditure (column a.) and Total Expenditure from all sources, public and private, (column b) in the Principal Provinces/Presidencies

In Rs Lakhs (Rs 00,000)

	Bengal		North Western Provinces		Punjab		Madras		Bombay	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
1858	10 4	10 5	3.3	N A.	1.4	2.3	4 1	N.A.	3.9	N.A.
1859	10 2	10 3	4.6	N.A	1.7	2.9	5 1	N.A.	4.3	N A.
1860	8	10 4	5	6.9	1 6	3 4	4 9	N A	3.8	5 8
1861	8.1	11	5 •	9.5	1.5	4 2	5.3	5.6	3 7	6.1
1862	8 8	11	4 9	N.A.	1.8	5.1	5 1	5 4	4.3	6 8
1863	9 9	12 3	4.9	7 5	2 6	7.3	5.6	5 6	4.4	7.5
1864	11 2	17 3	5.4	7.6	2.8	6.5	6.1	6.5	5 2	9
1865	12.6	20.3	7.3	11.2	4.1	7.9	6 7	7 1	7 1	12
1866	13 8	22 8	7.8	11 9	4.8	8 7	6.2	7.2	8.7	17 1
1867	13 9	22 9	7 7	12.3	5.6	9 5	6 2	7.3	9 2	15.2
1868	16.6	27 4	9.6	14.9	4.7	9.5	7.1	8.4	8.7	16 7
1869	17 5	29 5	9 7	18.1	6	9 8	8.6	10.6	8.5	17.6
1870	18 4	31 6	10 7	18.9	5.8	10	9.8	11.5	8 9	18 1
1871	18 7	32	10 5	19 4	5.9	10.2	10 2	11.7	9 5	20.9
1872	18.1	31.9	12.1	19.4	6.2	10.5	8.6	15 6	9	20 7

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II. SECONDARY SOURCES

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I. PRIMARY SOURCES

A. PUBLIC RECORDS

The search for source materials on the financial policies of the Government of India may begin with the records of the Finance Department but it must not end there. The sources are dispersed in the public records in the Indian National Archives in several series and to confine oneself to the Finance Department records, voluminous as they are, is to allow certain arbitrary administrative arrangements (and archival classification) of the past to determine the scope of one's enquiry 'Finance', as Sir Charles Trevelyan put it, 'is the key to all departments' Every agency of the government came under the scrutiny of the Finance Department since it controlled the resources. Every such department is not, obviously, equally important from the financial point of view : the more important ones were the Military, Public Works and Home Departments and the new (created in 1871) Department of Revenue, Agriculture and Commerce Moreover, the period we have studied was one of innovations and experiments : in the early years division of functions between departments was not

systematic and in the 'sixties there were many changes affecting financial business a considerable part of which was conducted outside the Finance Department In 1843 a Secretary for Financial Affairs was appointed and this was beginning of a separate *Finance Department.* Initially the main function of this Department was the control of disbursements. A good deal of financial business—especially in the revenue collection branch, was the responsibility of the *Home Department* ('Revenue' and 'Separate Revenue' branches) The appointment of a Finance Member, the 'Fourth Ordinary Member' of the Governor-General's Council, led to the consolidation of the Finance Department; the policy of centralisation of financial control initiated by James Wilson and, in particular, the new system of budgetary control, increased the Finance Department's responsibilities and powers vis a vis other departments The portfolio system in the Council—originated by Canning and further developed after the enactment of Indian Councils Act of 1851 (which gave to the Governor-General power to make rules for convenient transaction of business in the Council)—encouraged more rational and systematic division of departmental function To bring all financial business under the Finance Member and the Finance Secretary was the aim of the Government On 21 March 1861 some items (Stamp Duties and Customs) were transferred from the Home Department to Finance Department; due to some administrative inconveniences the transfer was revoked and the work of collecting those taxes went back to the Home Department in March 1862 These items as well as Salt Duty, Opium Revenue, and Abkaree (Excise) branches were finally transferred from Home to Finance Department in October 1863. (The provinces of Oudh, Punjab, British Burma and the Central Provinces did not come within the purview of this change till September 1864) Apart from the Home Department two other departments were of importance from the financial viewpoint One was the *Central Public Works Department* set up in 1855 The other was the *Minilary Department* The policy of systematic retrenchment of military expenses after the Mutiny necessitated the creation of a Military Finance Commission (June, 1859) which was later converted into the Military Finance Department, which in turn was replaced by another agency, the Accountant General to Military Department (April 1864) *The Revenue, Agriculture and Commerce Department* was set up in June 1871 and to this department were transferred from Home, Finance and Public Works Departments, business relating to Land Revenue Survey Settlement,

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(a) Financial Despatches, 1857-58.

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(a) Finance Despatches, 1858-1875

(b) Revenue Despatches, 1858-1875

(c) Separate Revenue (Home) Despatches, 1858-1860

(d) Railway Despatches, 1858-1872

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(a) Financial Despatches, 1859-72

(b) Revenue Despatches, 1859-72

(c) Public Works Despatches, 1859-72

(d) Military Despatches, 1859-72

B. PRIVATE PAPERS

Papers of James Bruce, 8th Earl of Elgin (1811-1863), Governor-General of India 1862-63 (MSS Eur. F 83, India Office Library). His tenure was brief and the papers are, from the point of view of this study, of marginal importance.

Papers of Sir John Lawrence, first Baron Lawrence (1811-1879), Governor-General of India 1864-69 (MSS Eur F 90, India Office Library & microfilm, un-numbered, National Archives of India) Particularly useful were volumes of Letters from Secretary of State: Vols. I & II, 1864-65 (Charles Wood); Vol. III, 1866, (Wood, de Gray and Ripon, Cranborne); Vol. IV, 1867 (Cranborne and Northcote); Vol. V, 1868 (Northcote). Letters from Lawrence to Secretaries of State and Members of the Governor-General's Council were also found useful,

Papers of Richard Bourke, 6th Earl of Mayo (1822-72), Governor-General of India 1869-72 (Add. 7490, Cambridge University Library, & microfilm, unnumbered, National Archives of India) The 'Letters Despatched' number about 1200 of which a large number touch on financial questions. Letters received from the Secretaries of State numbering about 111, and a large number of letters from H. Bartle Frere, R. Temple, J. Strachey, S. Northcote, H. S Maine, G Campbell, S. Fitzgerald *et al* are extremely informative Unfortunately the letters in some of the bundles (which are numbered) are neither chronologically arranged nor numbered, the letters despatched are relatively well arranged.

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D. PARLIAMENTARY PAPERS

[Since the bulk of these papers consist of extracts from records mentioned in Sec. A only a few of the relevant papers are listed below.]

	Volume	Page	Paper	Subject of Paper
HC 1859 Sess. II	23	31	154	Debt : Return showing the Debts of the Government of India and of the East India Company.
HC 1860	49	241	339	Finance : Correspondence on proposed Financial measures in India.
HC 1862	40	7	230	Memorial of the Civil Service of India regarding grievances as to retiring allowances and the position of the Civil and Civil Annuity Fund.
HC 1862	40	665	327	Sale of waste lands, and redemption of Indian land revenues in perpetuity. Correspondence, 1859-61.
HC 1863	43	389	164	Sale of Waste Lands and Redemption of Land Revenues : Further Papers.
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HC 1871	8	1	363	East India Finance : Report from the Select Committee, with their Proceedings.

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HC 1873	12	1	179	East India Finance : First Report from the Select Committee.
HC 1873	12	9	194	East India Finance : Second Report from the Select Committee.
HC 1873	12	19	354	East India Finance : Third Report from the Select Committee.
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INDEX

Notes & References at the end of each Chapter have not been indexed.